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Minutes of proceedings and
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HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1-17

TUESDAY, MARCH 1, 1966

TUESDAY, APRIL 5, 1966

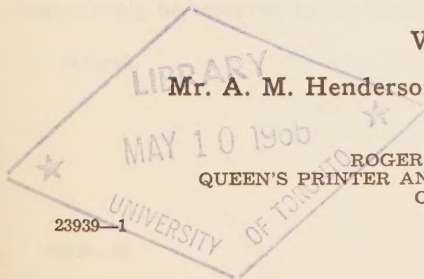
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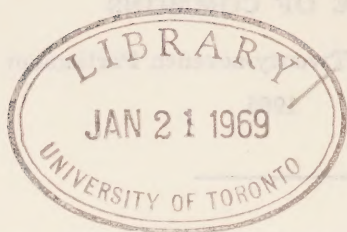
Public Accounts, Volumes I, II and and III (1964 and 1965)
Follow-Up Report of Auditor General

WITNESS:

Mr. A. M. Henderson, Auditor General of Canada.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966





STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Baldwin,
Ballard,
Bigg,
Cameron (*High Park*),
Dionne,
Flemming,
Forbes,
Gendron,
Leblanc (*Laurier*),

Morison,
Muir (*Lisgar*),
Prittie,
Racine,
Stafford,
Tardif,
Thomas (*Maisonneuve-
Rosemont*),

Thomas (*Middlesex
West*),
Tremblay,
Tucker,
Winch,
²Winkler,
¹Yanakis—(24).

M. Slack,
Clerk of the Committee.

¹Replaced by Mr. McLean (*Charlotte*) on February 17, 1966.

²Replaced by Mr. Mandziuk on February 17, 1966.

(Mr. Noble replaced Mr. Mandziuk on March 3, 1966)

ORDERS OF REFERENCE

HOUSE OF COMMONS,
MONDAY, February 7, 1966.

Resolved,—That the following members do compose the Standing Committee on Public Accounts:

Messrs.

Baldwin,	Leblanc (<i>Laurier</i>),	Thomas (<i>Maisonneuve-Rosemont</i>),
Ballard,	Lefebvre,	Thomas (<i>Middlesex West</i>),
Bigg,	Morison,	Tremblay,
Cameron (<i>High Park</i>),	Muir (<i>Lisgar</i>),	Tucker,
Dionne,	Prittie,	Winch,
Flemming,	Racine,	Winkler,
Forbes,	Stafford,	Yanakis—(24).
Gendron,	Tardif,	
Hales,		

THURSDAY, February 17, 1966.

Ordered,—That the names of Messrs. McLean (*Charlotte*) and Mandziuk be substituted for those of Messrs. Yanakis and Winkler, on the Standing Committee on Public Accounts.

THURSDAY, March 3, 1966.


Ordered,—That the name of Mr. Noble be substituted for that of Mr. Mandziuk on the Standing Committee on Public Accounts.

MONDAY, March 28, 1966.

Ordered,—That the Public Accounts Volumes I, II and III for the fiscal years ended March 31, 1964 and March 31, 1965, and the Reports of the Auditor General thereon, tabled on February 16, 1965 and February 1, 1966, respectively, together with the reports and financial statements of the Canada Council for the fiscal years ended March 31, 1964 and March 31, 1965, and the Reports of the Auditor General thereon tabled on July 14, 1964 and March 7, 1966, respectively be referred to the Standing Committee on Public Accounts.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House.



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MINUTES OF PROCEEDINGS

TUESDAY, March 1, 1966.

(1)

The Standing Committee on Public Accounts met this day at 10.50 a.m., for organization purposes.

Members present: Messrs. Ballard, Flemming, Forbes, Hales, Lefebvre, McLean (*Charlotte*), Muir (*Lisgar*), Prittie, Racine Stafford, Tardif, Thomas (*Maisonneuve-Rosemont*), Tremblay, Tucker (14).

The Clerk attending, and having called for nominations, Mr. Tucker moved, seconded by Mr. Tardif, that Mr. Hales be elected Chairman of the Committee.

There being no further nominations, Mr. Hales was declared elected as Chairman.

Mr. Hales thanked the Committee for the honour conferred on him.

Mr. Tremblay moved, seconded by Mr. Tardif, that Mr. Lefebvre be elected Vice-Chairman.

Mr. McLean (*Charlotte*) moved, seconded by Mr. Tucker, that Mr. Tardif be elected Vice-Chairman; Mr. Tardif declined the nomination.

There being no further nominations, Mr. Lefebvre was declared elected as Vice-Chairman and thanked the Committee for the honour.

On motion of Mr. Prittie, seconded by Mr. Muir (*Lisgar*),

Resolved,—That a Sub-Committee on Agenda and Procedure, comprised of the Chairman and four members to be named by him, be appointed.

At 11.00 a.m., the Committee adjourned to the call of the Chair.

TUESDAY, April 5, 1966.

(2)

The Standing Committee on Public Accounts met this day at 9.40 a.m. The Chairman, Mr. A. D. Hales, presided.

Members present: Messrs. Baldwin, Bigg, Dionne, Flemming, Forbes, Hales, Leblanc (*Laurier*), Lefebvre, Muir (*Lisgar*), Noble, Thomas (*Maisonneuve-Rosemont*), Thomas (*Middlesex West*), Tremblay, Tucker, Winch (15).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; and Messrs. Long, Stokes, Smith, Douglas, Crowley, Gilhooly, Cooke and Laroche of the Auditor General's office.

The Clerk read the Committee's Order of Reference dated March 28, 1966.

On motion of Mr. Leblanc (*Laurier*), seconded by Mr. Thomas (*Middlesex West*),

Resolved,—That the Committee print 750 copies in English and 350 copies in French of its Minutes of Proceedings and Evidence.

The Chairman, after making an introductory statement, announced the composition of the Subcommittee on Agenda and Procedure as follows: Messrs. Hales, Lefebvre, Baldwin, Tardif and Winch.

Mr. Henderson made a brief statement on the function and role of the Auditor General and then introduced his senior officers.

The Committee then reviewed the follow-up report by the Auditor General, dated February 28, 1966, on the action taken by departments and other agencies in response to recommendations made by this committee.

Mr. Henderson was examined on his follow-up report, assisted by Mr. Long.

On motion of Mr. Winch, seconded by Mr. Baldwin,

Resolved,—That the follow-up report of the Auditor General be printed as an Appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix 1*).

At 11.25 a.m., the Committee adjourned to the call of the Chair.

M. Slack,
Clerk of the Committee.

EVIDENCE

TUESDAY, April 5, 1966.

● (9:40 a.m.)

The CHAIRMAN: This is the first meeting of the Public Accounts Committee. There are one or two observations I should like to make. First of all, when you are speaking I hope that each one of you will speak directly into the microphone in front of you. We want everybody to hear what is being said, and, secondly, if you would endeavour to sit in the same seats each meeting, it will help the translators and it will help your Chairman to spot the members who wish to speak. I would first of all ask our congenial clerk, Mr. Slack, who has been with the Public Accounts Committee on other occasions, to commence our meeting by reading the order of reference.

CLERK OF THE COMMITTEE:

Monday, March 28, 1966. Ordered, that the Public Accounts volumes one, two and three for the fiscal years ended March 31, 1964 and March 31, 1965, and the reports of the Auditor General thereon, tabled on February 16, 1965, and February 1, 1966, respectively, together with the report and financial statements of the Canada Council for the fiscal years ended March 31, 1964, and March 31, 1965, and reports to the Auditor General thereon, tabled on July 14, 1964, March 7, 1966, respectively, be referred to the standing committee on Public Accounts.

Léon-J. Raymond.

The CHAIRMAN: Gentlemen, that is the work lined up for us. Now, would someone care to move that the committee print 750 copies in English and 350 copies in French of its Minutes of Proceedings and Evidence.

I might say that these numbers of 750 and 350 have been checked with the distribution people and they are in order.

Mr. LEBLANC: I so move.

Mr. THOMAS (*Middlesex West*): I second the motion.

Motion agreed to.

The CHAIRMAN: I have one or two introductory remarks, gentlemen. First of all, members of the committee will have noted the widespread publicity given again this year to the Auditor General's report following its tabling in the House on February 1. I have read many of these editorials in English and in French newspapers and I believe our committee has a big service to perform again this year in keeping faith with the taxpayers of this country. As you yourselves will have read, little has been left unsaid in the press as to what the taxpayers expect from their members of parliament and the Public Accounts

Committee, now that it is charged by parliament with examining the reports of the Auditor General for 1964 and 1965. I am sure we can all be most grateful to the press for their attendance at our meetings and their excellent coverage and cooperation.

I should like to pay tribute at this time to my predecessors in office since 1958, first, Mr. Alan Macnaughton and then Mr. G. W. Baldwin, under whose guidance this committee has established an enviable record over the past eight years in terms of work done and recommendations made. However, the fact that so many of its recommendations have not been acted upon by the executive is something I believe we should tackle as our first item of business when dealing with the Auditor General's follow-up report and this will be distributed to you this morning.

Before deciding on witnesses to be called, I suggest that we examine first the Auditor General's follow-up report, and then move to his 1964 report. Items in these two reports, on which later information is available in the 1965 report, might be set aside until we are ready to discuss that report. Thus, after a few meetings, we can decide about witnesses and corporations to call and set up our dates accordingly.

It is necessary that each member of the committee devote as much time as he can to studying the reports and related material in advance of discussion in the committee, and in order to assist you in this I propose to, as much as possible, tell you at the close of each meeting what we will be taking up at the next meeting so it will give you a chance to do a little homework.

The reports of the Auditor General deal with the various items he has selected for criticism. As you know, they are items disclosed in the course of his work and investigated to the point where he believes the facts should be made known to parliament and to this committee. His reports are not efficiency ones. Rather do they aim at promoting efficiency by pointing to many transactions where there is evidence of waste, inefficiency or weakness of system. After discussion of each item, we must decide, among other things, whether the money voted by parliament has in fact been effectively and efficiently spent. We are free to question any of the officials of the departments, agencies and crown corporations on the facts disclosed by the Auditor General. After we have reported our conclusions and recommendations to the House we expect these departments, agencies and crown corporations to report back promptly and say what they have done to put matters right.

It is important for us to understand that the Auditor General functions as a permanent adviser to this committee and I know I speak for all of the members when I say that we intend to make good use of his advice.

He is an officer of parliament and this committee provides the only channel open to him where he can discuss and review his work.

The independence of the Auditor General is the source of his greatest strength. It is the responsibility of the members of the House and particularly members of this committee to render him every possible assistance aimed at safeguarding the independence of his position and the operations of his office. I might say in that connection that this committee in the past has made a number of recommendations aimed at revising Part VII of the Financial Administration

Act for the express purpose of safeguarding his independence. However, as you will note from the follow-up report, no action has been taken yet by the executive. I know that all of the members will share my view that we should examine this situation particularly closely.

Well, now gentlemen, I would like at this time to name the members of the Steering Subcommittee whom I have spoken to and asked to work on the subcommittee on Agenda and Procedure. They are Mr. Baldwin, our past Chairman, Mr. Lefebvre, our Vice-chairman, Mr. Tardif, Mr. Winch, and your Chairman is the other member of that committee.

Now I would like to call on our Auditor General, Mr. Henderson.

MR. WINCH: Just before you do that, could I ask a question of you sir. In view of your outline of the procedure which we are going to follow and the order we are going to take the information, I would like to ask whether or not yourself as Chairman, upon occasion, will consider moving up certain matters of interest. I am not going into detail but I have in mind a particular matter. In our past meetings we were told that certain illegalities of the Revenue Department are being continued.

THE CHAIRMAN: Mr. Winch, in the past we have done that and I see no reason why the committee would not do it again.

Now, Mr. Henderson, our Auditor General, will introduce to you his staff who have been kind enough to join us this morning and the meeting will continue under Mr. Henderson's guidance.

MR. A. M. HENDERSON (*Auditor General*): Thank you, Mr. Chairman and members of the committee. Before making these introductions I should like to say to you how pleased I am to appear before you again today at the commencement of the sittings of the committee. As your Chairman has pointed out, I do so in my official capacity as an officer of parliament in which I have been traditionally the adviser of this committee.

(*Translation*)

It gives me special pleasure to welcome this morning those members of the Committee who come from my own province. I have been a member of the "Institut des comptables agréés du Québec" for eighteen years. I must admit, however, that I am afraid I do not speak French as fluently as I would like. So because my business is strictly facts and figures I had better revert to my native tongue. As the old proverb goes: "discretion is the better part of valour".

(*English*)

I might now perhaps say a word to you about the function and the role of the Auditor General. His functions and responsibilities are outlined in Part VII of the Financial Administration Act. By law he is entitled to free access at all convenient times to all files, documents and records relating to the accounts of every government department, crown corporation and agency, and he is also entitled to require and receive from members of the public service such information, reports and explanations as he may deem necessary for the proper performance of his duties.

Section 67 of the Financial Administration Act requires the Auditor General to examine in such manner as he may deem necessary the accounts relating to the Consolidated Revenue Fund and to public property, and to ascertain whether in his opinion, among other things, money has been expended for the purposes for which it was appropriated by parliament and the expenditures have been made as authorized.

Section 70 of the Act requires the Auditor General to report to the House of Commons each year on the results of his examinations. Among the matters upon which he is specifically required to report in relation to expenditures is any case where any appropriation has been exceeded or was applied to a purpose or in a manner not authorized by parliament, and any case where an expenditure was not authorized or was not properly vouched or certified. In addition, he is required to report any other case that he considers should be brought to the notice of the House of Commons.

I should now like, Mr. Chairman, to take a moment to introduce to you the senior officers I have brought here today for this purpose. It is not intended that they should all attend each of the sittings together in this way. Generally speaking, I shall have present those of my Audit Directors who are responsible for the matters with which you are dealing at the time.

First I should like to introduce to you Mr. George Long C.A., who is on my right and who is the Assistant Auditor General. Mr. Long has had a long and distinguished career in the Audit office. He will be participating in all of the meetings with me.

I would now like to ask Mr. J. R. Douglas if he would rise. He is my Audit Director whose prime responsibilities are the accounts relating to National Defence operations, together with the Department of Industry, the Department of Defence Production and their related crown corporations.

I will now ask Mr. Crowley to rise. He is my Director in charge of the Revenue side of our work. With Mr. Crowley is Mr. Marcel Laroche, the Assistant Director. The work of these men has particular responsibilities involving as it does all of the Revenue side, that is to say Customs, Excise, Income Tax and related taxation, the Post Office, National Research Council, Royal Canadian Mint, the Exchange Fund and similar areas.

I would now introduce Mr. Edward Cooke, C.A. He is my Director who deals with the responsibilities we have here in the House of Commons, in the Department of Finance, including the Central Pay Office, and the Superannuation Branch and the Department of Citizenship and Immigration. I might mention that Mr. Cooke, who has served 12 years in the Audit Office, was promoted to this position in January of this year replacing Mr. Stewart Chapman who retired after a career in the Audit Office extending over 32 years. I believe a number of the members present will recall M. Chapman's appearances before the committee.

I shall now ask Mr. Frank Gilhooly if he would rise. He is my Audit Director in charge of work on the Welfare side, involving the departments of National Health and Welfare, Veterans Affairs, Labour, Unemployment Insurance Fund, Department of Justice, and so on.

The next Director I want to introduce to you is Mr. Douglas Smith whom many of you know. He is my Director in charge of what I might loosely describe as the larger spending departments, for example Public Works, Transport, Mines and Technical Surveys, Northern Affairs, and National Resources, and so on.

And lastly, Mr. A. B. Stokes, C.A., who is my Director in charge of such departments as External Affairs, Agriculture, Privy Council, Trade and Commerce and the majority of the crown corporations that we examine and which, as you know, include some large ones.

This completes my introductions, Mr. Chairman, and perhaps these few words may serve to give members a brief idea of the way in which our office is organized and how we assign and go about our work. I should explain to you that each of the men I have introduced to you is in charge of a branch and supporting staffs. The Audit Office is divided into six branches over which these Directors preside and we work very much together as a team. If there are any questions at all, Mr. Chairman, from any of the members, I should be most happy to answer them.

The CHAIRMAN: Thank you, Mr. Henderson. We appreciate having your battery here. We assure you we have the firing squad out in front; but we will try and be as congenial as possible at all times. We are very pleased to have your staff with us.

Mr. HENDERSON: Thank you very much.

The CHAIRMAN: Now, we have the follow-up report.

Mr. WINCH: May I ask a question?

The CHAIRMAN: Yes.

Mr. WINCH: Could I ask Mr. Henderson this question. In view of the number of the presentations made to this committee in the past, that one of your major problems was not sufficient staff to do more than a rough spot check and because of what you discovered in your spot checks, you felt it necessary to be able to increase your spot checks, could I now ask whether or not you are in a position to do more of spot checking than in the past?

The CHAIRMAN: Mr. Winch, this is a good subject. It is in the follow-up report and will be discussed when we come to that. Now, Mr. Tremblay?

(Translation)

Mr. TREMBLAY: Mr. Henderson, you have mentioned that under the Financial Administration Act the Auditor General has two main functions, one of which is to indicate first, whether expenses were incurred in accordance with the legislation enacted by the government, and, secondly, whether any changes were made in the use of funds from credits ear-marked by Parliament. The second function is quite general and allows the Auditor General to make any comment to the House concerning the use of funds. I should like to know on what criteria is based this second function permitting the Auditor General to make any remarks or comments to Parliament on the use of funds.

(English)

The CHAIRMAN: Mr. Henderson, would you care to comment?

Mr. HENDERSON: Yes, Mr. Chairman. I would refer you to the sections of the Financial Administration Act which are set forth in my report on the first page, paragraph 2, where it states that the Auditor General shall report annually to the House the results of his examination, and then it lists the things to which he should call attention and it concludes by saying "and to any other case that the Auditor General considers should be brought to the notice of the House of Commons". I, of course, deal with all of the cases that are listed there, and my interpretation of the last clause has been to bring as much common sense and fairness as I possibly can to my judgment in reporting those things to the House which I believe the House should know and to give the reason. I think as we study my report, you will be in a better position perhaps to come back to this question. I shall welcome a discussion with you.

The CHAIRMAN: Mr. Tremblay, would you mind speaking into the mike?

(Translation)

Mr. TREMBLAY: Must this last clause be interpreted in relation to the items listed here in a, b, c, d, e, f? I ask this question because, and we shall probably refer again to this when studying the report, certain items indicated by you in your report are items or decisions made, let us say by the Treasury Board, where funds were allocated in pursuance of a vote and where you commented on a decision which had not been made in accordance with the regulations established by the Treasury Board. Therefore I ask, in this instance, under what section of the Act or under what vote established in the estimates such a remark may be made?

(English)

Mr. HENDERSON: I think the interpretation of this section, Mr. Tremblay, does, and I think you will agree, must rest with the Auditor General in such cases—This is borne out by the practice back to the inception of the Office in Westminster on which considerable has been written and said—dealing with matters and cases which the Auditor General believes should be brought to the notice of the House of Commons involving for example, waste and extravagance which he conceives it his responsibility to bring to the attention of the House. Again, there are many cases where the intent of parliament and the legislation has not been clear. It has always seemed to me proper that he ask parliament what the intent of that legislation is, and we shall be encountering a number of cases here in which that question is posed.

I make no apologies for the manner in which I have interpreted this section in so far as waste and extravagance of public money are concerned and where non-productive expenditures have resulted in a substantial loss of public funds. In fact, it is at the express direction of this committee that I bring forward each and every case of non-productive expenditure I encounter in my work. Possibly you have reference to some of these as not falling in this class, but I am acting here under the express direction of this committee.

It may be at that time the committee will wish to alter this direction. I myself am on record as inviting and asking for a definition of non-productive expenditure. It is generally conceded to be a case where value is not received for money and there are many borderline cases. It may be that a lot of experience was received, if you want to call that value. It calls for the exercise of judgment and I do not have to tell you that every paragraph in my report is shown in its final text form to the deputy ministers and to the officials of the department concerned and is checked by them before it goes into my report. So I should be more than happy if you could cite any specific cases under this heading which you would like to explore further. I would, in fact, welcome it in so far as I think it would help both of us.

Mr. BALDWIN: Just as clarification and if I might, I would like to lead up to what is I think a case in point. Is it not correct, Mr. Henderson, that in the pursuit of your duties you interpret them, and particularly under this latter clause, you brought to the attention of this committee a number of recommendations of the Glassco Committee which had not been implemented? This Committee backed you up in that and in its view suggested that it is part of your function and part of your duty to do this and to continue to bring to the attention of the committee all those areas in connection with the Glassco Commission where there had not been the implementation which you felt would result in savings and in lack of duplication and in no waste. Am I correct in that?

Mr. HENDERSON: Yes. I am obliged to you for bringing that matter up, Mr. Baldwin. I do not know whether Mr. Tremblay had that particular case in mind but I discussed the situation in this committee as I saw it about three years ago and it was a direct result of their instruction to me that I reported in my 1965 report on the results of my check. I refrained from doing so in 1964, for what I considered a very sound reason, namely, that at that time the Treasury Board were engaged in a detailed and special study of this situation, and I felt that it was only proper that they should be given a chance to complete it, notwithstanding the fact that several years had elapsed since the particular report had been published.

The CHAIRMAN: Mr. Tremblay, maybe when we come to this section "non-productive account" you might like to bring this matter up again under that heading.

Mr. WINCH: Mr. Chairman, I just have one question here for clarification. Your introductory remarks were excellent, sir. We have just now been handed the follow-up report by the Auditor General to the Standing Committee on Public Accounts on the action taken by departments and other agencies in response to recommendations made by the Committee. Do I understand correctly that among the first order of business of this committee will be consideration of past recommendations of this committee that have not been followed through, and the calling of witnesses to give an explanation of why a parliamentary committee's recommendations have not been concurred in or acted upon.

The CHAIRMAN: Mr. Winch, our report to the House will be based periodically on the subjects we have discussed. This is our first order of business so our first report to the House will be on this, I would take it.

Mr. WINCH: And the first witnesses we can call will be deputies or ministers who will be asked to explain why the recommendations have not been followed through.

The CHAIRMAN: At the call of the committee, if you so decide. I think if Mr. Henderson takes a quick run through this follow-up report—

Mr. HENDERSON: Would that be agreeable?

The CHAIRMAN: Would that be agreeable to this committee.

Agreed.

And it has been distributed.

● (10.10 a.m.)

Mr. WINCH: One of the first things we should know is why the recommendations of this committee have not been dealt with.

Mr. HENDERSON: Well, if we were to take a quick run through the report the present situation would be self-evident, and then in your judgment you could decide whether you want to stop there and consider this or whether you want to move into the 1964 report and then the 1965 report, as the Chairman said.

The comments I have made here are intended to be concise. There have been a few developments since and I will mention them as we go along because, as I say here, this is my report on the situation on February 28, 1966, and here we are on April 5.

Mr. WINCH: Mr. Chairman, I think it is rather ridiculous, if a committee of this importance, after consideration, makes recommendations and nothing is done about them.

Mr. HENDERSON: I might start out, Mr. Chairman, with page 1 by saying to you that I indicate how in accordance with your instructions I sent the previous reports to the Ministers responsible and I received replies from each of the Ministers, either in detail or followed up later by a letter in detail, as you will observe later, or else just a plain acknowledgment; and in addition, Deputy Ministers of many of the departments have been most helpful in bringing the information up to date.

Now, the first one is a carry forward from your fourth report, 1963. The ones we are going to deal with are forty, that is to say the ones not fixed up yet. The ones that have been implemented are listed at the end. There are ten. We started with fifty. We have forty still outstanding.

Mr. WINCH: There are forty which are still outstanding.

Mr. HENDERSON: That is correct. The first one from your fourth report 1963 has to do with second class mail in which you requested me to keep the matter before parliament in my annual reports in order that subsequent committees may give consideration to it. I have done this both in my 1964 report and in my 1965 report and I indicate the steps that the department has been taking in an endeavour to improve its cost ascertainment procedures.

To start at page 2, I go on to indicate that the loss in 1963-64 had been estimated at \$35 million. I do not at the present time have the 1964-1965 figures. The department is still working with experts they have engaged on their cost ascertainment procedures and if I am correct I believe that a report will be forthcoming this spring giving the first full year's results under the new cost ascertainment procedures.

The loss from second class mail, of course, remains at a substantial level and I would suggest to you that this is a point that you might care to defer until we move on to what I have to say in my 1965 report, by which time I would hope that we might have something more definite from the Post Office Department.

Departmental Operating Activities; there has been a standing request made to me to continue to keep the development of this objective under close surveillance and to report thereon to the committee. We watch this in the course of our work. I can tell you that there has been steady improvement, but the development of accurate periodic comparative financial statements is, in many of our departments, dependent upon the progress of the Glassco recommendations because this too was one of the Glassco commission's recommendations.

I have a number of examples of steps that have been taken by the department to meet this objective. I have in mind particularly, a letter from Mr. Chagnon of the Department of Agriculture concerning the Agricultural Stabilization Board, the Board of Grain Commissioners, and the Canadian Government Elevators. We are continuing to press for this and much more has to be done. I give specific examples of this again in my 1964 and 1965 reports so that again I would suggest this is a subject you might want to leave until we reach that point.

Internal Financial Control. Again there has been a standing request for me to continue my examinations into this important area. I have the situation updated for you in my 1965 report but as I say here, and I am speaking from the bottom of page 2:

In my opinion, greater progress could be made in recognizing the importance of internal audit. While a number of the larger departments and Crown corporations possess their own staffs, a number have not yet taken steps along these lines even though the circumstances justify it.

I regard the question of internal audit to be of considerable importance because it has a strong bearing on my work. Depending on the efficiency that the department can bring to doing its own internal auditing, I am able to rely on it in planning my own tests because my work is essentially a test audit. It has to be; I do not have the staff nor the means to do more than that. I place a very high priority on the importance of a department's system of internal financial control, and if one of the management tools they have is an effective internal audit group, even if it is only one man going around carrying out a program which is satisfactory to us, then it is an added assurance and means that I can place reliance on it. I do not mean to suggest by that that I am seeking to avoid any responsibility; it is simply that, as in the case of all large

businesses where you have an effective internal audit team working it not only provides greater assurance to the management, but it also enables the external auditor to do a better job.

Mr. MUIR (*Lisgar*): Is it usual that all departments provide this internal audit?

Mr. HENDERSON: No, the crown corporations have led the way in this. Some of the larger departments have them, but this is a matter, Mr. Muir, which at the present time is caught up in the Treasury Board's attempts to bring about a greater decentralization of authority to departments, as recommended by Glassco, and I have told them—and I find that Dr. Davidson, Secretary of the Treasury Board is in complete agreement with me—that I hope very much that decentralizing such greater responsibility to Deputy Ministers will be accompanied by either a strengthening of the present internal audit set-up they have or the introduction of one or two people to do that work in future.

The CHAIRMAN: It would appear to the committee, Mr. Henderson, that this is one of the more important observations of yours, and if the committee feels that they would like to leave it until we come to the 1964 and 1965 Reports we will go into it more thoroughly.

Mr. HENDERSON: We will cover it in these two reports because I keep it before you each year in my report.

Now, on the matter of Unemployment Assistance, we have been commenting on this in the past reports, and as I say, we dealt with the matter both in 1964 and again in 1965. The last development here was a series of discussions, as I mentioned, between federal and provincial government representatives in January 1966 and in addition to this reference was made to it in the Speech from the Throne. As I say, we have been informed that both the Department of National Health and Welfare and the Department of Justice are currently working on a draft of the Bill. Now Mr. Gilhooly, my director in charge of that area, is with me today and if there is anything further on this I am sure we are in a position to give it to you.

Number 5, Findings of the Royal Commission on Government Organization: As mentioned earlier, I reported on this in accordance with your directions in paragraph 7 of my 1965 report and I would suggest to you that this can probably be best discussed when we reach that paragraph.

Regarding the Form and Content of the Estimates, this was the subject of a study by a subcommittee of your previous committee and it brought down a series of recommendations. You will notice that (a), which I can explain later, was implemented and also a small item under (c) was implemented. But with respect to (b), there has not yet been any action, nor has there been with respect to the other point mentioned in (c).

At the top of page 5 I point this out to you; that is to say, that the recommendation that supporting financial information concerning the Crown corporations and other public instrumentalities be included in the details of services in the Blue Book of Estimates has not been done. At the same time in your report, you asked that explanations be placed in the Blue Book for major proposed increases in the establishments as between the previous year and the

present year; That information has not been provided. But there has been provided an appendix in the Blue Book listing the total public service employment by departments.

In my 1965 report we will be coming to a paragraph in which I show you how the vote pattern actually used in the 1964-65 estimates differed in certain instances from the pattern which had been considered by your sub-committee, and I have no doubt that you will wish to ask some questions and possibly discuss the matter with representatives of the Treasury at that time.

The CHAIRMAN: Mr. Henderson, as we go through your report, I know there are observations of great interest to each member of the committee and I would ask members of the committee to write in the margin those with which they are particularly interested so that when this comes up under the 1964-65 report they will be prepared to put their questions to the officials or to Mr. Henderson.

Mr. HENDERSON: Number 7, "Living Allowance to Federally-Appointed judges", this was the case where your committee supported the observations made by me and your recommendation is shown here. I can only advise you that no action has been taken toward remedying this matter, and in my 1965 report, there are two additional circumstances which support my opinion that the amounts of the living allowances being paid to federally appointed judges are such that an element of remuneration is included therein and consequently they are contrary to existing legislation covering payments to judges. I think this is a matter you will wish to discuss.

Number 8, Governor General's Special Warrants: It was as a result of my comments on the items which were included in the previous Governor General's warrants that you recommended a study be made in this whole area. This was a result of recommendations made at the time that we discussed it in a lengthy meeting with the Secretary of the Treasury Board. However, I have not yet been informed of any study having been made along these lines. I quote for your information a reference made by the Minister of Finance on March 4, 1965 to the chairman of the committee.

The CHAIRMAN: I wonder if I may interject in this one about Governor General's warrants. The past Chairman, Mr. Baldwin, made a speech on this subject in the House. What was the date of the speech, Mr. Baldwin, do you remember?

Mr. BALDWIN: It was on February 7th at page 810 in Hansard.

The CHAIRMAN: It might be well to read that speech. It deals with this subject at some length.

Mr. WINCH: I would like to ask one question on Number 8. Number 8, of course, deals with recommendations that were made by the Public Accounts Committee, and yet, as I read the answer which was given to us, the government said that whatever they will decide will be a matter to be presented to parliament in the usual way. Now to me this is a little bit of arrogance and an insult to this committee that we should be given an answer that anything that they come up with will be presented to parliament in the usual way. I think this committee is entitled to an answer yes or no on a matter of this kind, not to be told that "if we decide anything it will be introduced to parliament in the usual

way." I think it is a place where this committee should make it known that we are sitting as a Public Accounts Committee of the House of Commons and we do not expect this kind of answer on a matter that has previously been considered by the Public Accounts Committee and a recommendation made thereon.

The CHAIRMAN: Now, Mr. Winch, the committee has the right to call the Deputy Minister of Finance or the comptroller's department, someone to come to the committee and make their explanation on this. You might care to make this later on—

Mr. BALDWIN: Without asking Mr. Henderson to peer into the future, I would not be at all surprised that next year's report, which will be presented next year, might have further comments on Governor General's warrants. Probably that was an obiter, and I should not have said it.

Mr. HENDERSON: Number 9, Remission of Sales Tax on Oleomargarine: This was an objection taken by the committee to the way in which Section 22 of the Financial Administration Act was being used to remit this tax and I am not aware of any action having been taken to discontinue the practice; in other words the practice continues.

Number 10, Cost of Gasoline Used in Departmental Vehicles at Ottawa: This was a point which my officers brought to my attention and which I raised in an earlier report because we found that attractive discounts might be available and savings in the order of \$158,000 might be obtained. I am happy to tell you that subsequent to the preparation of this report the Treasury Board advised Deputy Ministers on March 28 of an approval they had given on March 17 to a national credit card system to be used by all government departments for the purchase of gasoline; and as a result of their negotiations with the gasoline companies, they are estimating savings over the next year of the order of \$120,000. I believe the new system is to be effective April 1, 1966. It involves credit cards, and it also involves discounts or quantity rebates. So I think that we should remove this one and perhaps you would agree that your recommendation has been achieved.

Number 11, Unemployment Insurance Fund and Its Administration: The best answer that I could provide here was to quote from a letter the Minister of Labour wrote to me a year ago in which he set down the position of the government. The immediate point with which I am interested, of course, and so are you, was the revision we would like to see in the Act whereby the Auditor-General would be required to certify the financial statement of the Unemployment Insurance Fund. In point of fact, I am doing this now, albeit under an informal arrangement, and I may say that it is working out to the complete satisfaction of the department and myself, and my certified accounts are available in the Public Accounts.

The Board of Grain Commissioners—

Mr. MUIR (*Lisgar*): Could the Auditor General tell us how does the fund stand at the present moment?

Mr. HENDERSON: I just asked Mr. Gilhooly but he said he does not have the present figures with him today.

We show an up-to-date picture on this in my 1965 report, Mr. Muir. There is a paragraph on it which gives the figures through March 31, 1965, but if you want it right up to date, that would have to be obtained from the department.

Mr. MUIR (*Lisgar*): That is fine, thank you.

Mr. HENDERSON: The Board of Grain Commissioners: you will recall, the expenses of this operation were exceeding its revenue by more than a million dollars a year and the committee felt that something should be done about this and asked me to keep the matter under review. Well, the fees were raised, and as I indicate, whereas expenditures exceeded revenues in 1965 by \$1,823,000, had the increase which was made effective August 1, 1965, been effective during that fiscal year, then the Board's revenues would have been something less than that figure or \$1,760,000 greater. I am in the hands of the committee as to whether they feel this represents disposal of this matter. It will, of course, remain under close scrutiny in the years to come, but at least action was taken.

Now, Number 13 deals with my office, the point which Mr. Winch mentioned earlier. My approved staff establishment has remained now for some time at 220. My actual staff on strength is 198 at the present time, so that I am 22 people short.

Mr. WINCH: Mr. Chairman, could I interrupt here, because I know that the Auditor General may want to and should make a statement here. I think it is time, at our first meeting here, to draw the attention of the new members and the attention of those of us who have been on this committee ever since it was first established to the fact that we have this problem of staffing of the Auditor General's office every year. We recognize his responsibilities and his lack of staff, and finally I think it was absolutely on a unanimous decision that we made certain recommendations to get away from the difficulty of the Auditor General so that he could obtain—because he had told us that he could obtain them, if he had the authority—the required staff. Now we are told at the bottom of the page 8 that no action has been taken. This matter has been discussed over the years by the committee. Now once again we are told at our first meeting that he is still up against exactly the same problem; that no action has been taken whatsoever on the unanimous report of our committee in the past. This is a matter Mr. Chairman, to which I ask you to give immediate high priority, and that we get an explanation as soon as possible of why this important officer who comes under the control of the House of Commons and is dealt with in this way. We want an answer why the unanimous report and the recommendation of this committee have not been acted upon as yet.

Mr. HENDERSON: The solution you mention, of course, rests with the government. It requires an amendment to the Financial Administration Act to give me the authority to engage my own staff. I worked out, with the help of the committee in 1963, an arrangement with the Civil Service Commission whereby one of their officers joined my staff as the secretary of the Audit Office, wearing two hats, so to speak, who would be able to facilitate recruitment. This arrangement has met with a certain degree of success, not all that we would like because the figure of 220 is the estimate my officers and I have placed on the minimum establishment we should have to carry out an effective test audit in accordance with generally accepted auditing standards and within

the framework of the present government organization. Nevertheless, we have more people on staff since the last time I appeared before you. I should like to go further and pay tribute to the work that my men have done and are doing. We have been able to diversify and to increase the scope of our work to a certain degree, not all that I would like to see, but within reasonable proportions, and I feel it is essential and only fair to say this.

Now, in my 1965 report I tell you more about this, and at the same time I am able to tell you that for the first time in the history of the Office of the Auditor General of Canada, the Institute of Chartered Accountants of Quebec has recognized this office for students, which is a tremendous help in bringing young men in because it means they can obtain their degrees serving in my service. This has never been recognized before and I am very hopeful that at a meeting in approximately a month's time the Institute of Chartered Accountants of Ontario will extend me similar recognition.

This is important from the standpoint of recruiting young men and places me on a parity with the private firms. However, none of these things, in my opinion, provides a complete answer. I can only agree that I think the Auditor General should have the right to recruit his own staff and such help as he needs. I would hope that an appropriate amendment to the Financial Administration Act will continue to commend itself to you and be placed before you by the government.

Mr. WINCH: I know we all recognize the responsibility, the work and the sincerity of all members of the Auditor General and his staff. But the fact that year after year you state that you are short of staff, the fact that right now you say you are 22 short means that you are not able to fulfill the job which you think is your responsibility as Auditor General. Now, if I am incorrect, then why are you 22 men short?

Mr. HENDERSON: Well, the governmental recruitment machinery is slower moving than is the case in private practice, as I am sure Mr. Leblanc would agree. What we are trying to do, Mr. Winch, is to get on with the job as best we can with the tools we have got. I tell you that we have made progress, but not all the progress I would like. Moreover I place a high degree of importance on our day-to-day working relationships with the people we audit, namely the Civil Service Commission and the Treasury Board. I think our relations generally are good and it seems to me that there is an obligation on me to make this thing work within that framework too. But I am not losing sight of my goal. The figure of 220 is the desirable minimum objective. It is my figure. Another man might say that it should be 250; somebody else might say it should be 215. I picked this and that is my goal and the Treasury Department were good enough to approve it as my approved establishment. I am just concerned with filling it.

Mr. MUIR (*Lisgar*): If your recruitment continues as it did last year, you will be possibly up to strength next year.

Mr. HENDERSON: I hope so. The Civil Service Commission are doing in my view the best job they can under the system they have.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, might I ask the Auditor General if his powers and responsibilities are all outlined in the Financial Administration Act, or is there an overlapping of other legislation?

Mr. HENDERSON: They are all outlined in Part VII of the Financial Administration Act, Mr. Thomas. So far as staff is concerned, it states that although the Auditor General is himself a public servant, his staff shall be recruited in accordance with the provisions of the Civil Service Act. The recommendation of this committee has been that that should be changed and that the Auditor General should be empowered to recruit his staff in the same way as the National Film Board, a lot of crown corporations, other officers of parliament, and so on.

● (10.40 a.m.)

Mr. THOMAS (*Middlesex West*): But at the present you are—

Mr. HENDERSON: Oh yes—

Mr. THOMAS (*Middlesex West*): —working through the Civil Service?

Mr. HENDERSON: Yes, indeed, sir; that is the law. I am asking for nothing more here than the same sort of freedom that is given to all of our crown corporations, most of the agencies and to those officers with whom you are familiar in the House of Commons and in the Senate.

Mr. BALDWIN: Mr. Henderson, might I ask you whether you would be able, at the time we are discussing your report, to bring to us some indication of what is the procedure followed in other jurisdictions, particularly in other Commonwealth countries, and I think in France, where there is an Auditor General charged with certain responsibility, and the extent to which there is a departure there and the Auditor General does not have to work through the facilities of another branch of government. I assume he has to audit the books of that other branch as well, so that the Auditor General in these other countries would have, as I assume you should have as well, a greater degree of independence to employ and engage the staff that you need for your job. If you will be able to do that for us—

Mr. HENDERSON: I will be glad to study that. The arrangement that the comptroller General of the United States has in Washington is very good with very desirable objectives. It varies from country to country but I would be most happy to examine that and to outline it to you at the time we discuss this in the 1964 and 1965 reports.

(Translation)

Mr. TREMBLAY: Mr. Henderson, may I ask you a question? What difficulties, if any, are there in recruiting your personnel through the Civil Service Commission? Your objective is 220 employees, is there a recruiting problem, a personnel selection problem, or are there any other objections to this number of employees and could you obtain your personnel more quickly by recruiting it directly?

(English)

Mr. HENDERSON: The principal problem with which we are faced, and I think you would know that other departments in government are faced with it too, lies in the delay feature. The time lag between the putting of the advertisement in the papers and receiving the answers and interviewing the people and the time that they can be offered a job and can report for work. There is very keen competition for accountants today, particularly the bright young accountant who has just got his degree and is ready to go out in the world. Unless we are able to turn around and move fast, or unless we have a position available in our establishment in which to fit him, our efforts become fruitless; we have to wait and by the time we do contact him, he has got another job. We have had some unfortunate experiences with that.

Mr. WINCH: You have lost good men.

Mr. HENDERSON: In our opinion they would have made good officers if we could have got them. We have great difficulty meeting our competitors due to this time lag. But this is not just common to me. You will find this, for example, in the Department of Justice in the recruitment of lawyers. My staff is always going to be small. I do not think it ever needs to be any large figure at all but the young man that we hire today is the senior man of tomorrow and we place a very high priority on quality and on competence and it would be of great assistance to us if we could move faster than we are able to do now.

Mr. LEBLANC: I believe that the income tax department has the same problem as you have. They are looking for a new type of graduate accountant and so on, and they are going out and trying to induce them to come into the government service, but they are having difficulties because private industry is also after them, and there is still a shortage of chartered accountants in Canada.

Mr. HENDERSON: One of the features that I think will strongly commend itself to you is this: We should always have a strong office and be able to bring such young men in because we have many calls for trained people from other parts of the Canadian government, whether it is crown corporations or departments for men with particular expertise. They know them because they have worked on their books. A number of excellent opportunities come along for my men. I would never want to stand in anybody's way. I think it is highly reasonable that we must be prepared to let people move on in this way to other departments. I have a problem on my plate this week which I should like very much to meet by offering a member of our staff but it is very hard to do it when you are shorthanded. So that if we ever do emerge with, shall we say, more people than we have, today then it will be a good thing for the Canadian government because there will be plenty of opportunities for them. I think that the training they get with us is a very good training. I am sure you will agree with that Mr. Leblanc.

Mr. LEBLANC: Surely.

Mr. HENDERSON: And it is right and fitting that the government should look to us in this way. They have every right to ask us for staff. I would hope the day will come when we can make a greater contribution in this area.

The CHAIRMAN: Mr. Thomas?

Mr. THOMAS (*Middlesex West*): Does the Auditor General now have the authority to bring in students as apprentices?

Mr. HENDERSON: Yes. In the past year we have taken on students from the universities; they come to us in about May and they work until September. We operate on the basis that we hope that out of every dozen students that we can bring on in this way perhaps one or two of them will be attracted to our work and will come back when they get their degrees.

In the case of the articulated students, that is, of course, fulltime all year round ones, we now have six in our Montreal office who are accredited as students-in-accounts by the Institute of Chartered Accountants of Quebec. I hope they will stay with us and obtain their degrees with us. Then it will be up to us to keep them after that. But we are under an obligation to provide these students with the maximum experience and certain conditions laid down by the Institute which are only fair and proper in the training of these students. This is our first year of embarking on it. We do not have any yet in Ontario but I am hoping as a result of the action of the Institute of Chartered Accountants of Ontario next month that they will see fit to pass the necessary by law and then we shall have the two large provinces side by side helping us.

Mr. NOBLE: Could I ask the Auditor General, what are the requirements of recruits to your department. Is it necessary that they all be university graduates or chartered accountants, or what is required?

Mr. HENDERSON: Well, we have all our positions graded under the Civil Service and Treasury Board system and it depends on the vacancies we have in the different grades as to how free we are to have new men move into them. Each grade calls for certain qualifications and that in turn is geared to the remuneration he will be paid. At the bottom of the scale we can take high school students. If they come to us with a degree, then they are eligible for consideration in a higher grade. It is the standard Civil Service Commission procedure for offering positions.

Mr. FORBES: Are the salaries that you pay in your department equal to what is paid in industry for the same qualifications?

Mr. HENDERSON: At the levels we are discussing, in my opinion, they are approximately equal.

Mr. LEFEBVRE: Would you like to bypass the Civil Service Commission and do your own hiring?

Mr. HENDERSON: It is not so much a question of bypassing them. I am happy to have them in the picture, but I would like the right to engage our own staff. Our relations with the accounting profession are very good; the larger firms are more than happy to keep our needs in mind when names come up. Young men come in to see us and I believe we could move much faster and much more economically if we could simply take these people on. So far as the Civil Service Commission and any other regulating body is concerned if they would like to have a monthly report from us of our experience, what we are doing, they are welcome to it. It would simplify the whole business as I see it.

Mr. LEFEBVRE: You say the crown corporations do this now; they do their own hiring?

Mr. HENDERSON: Yes, indeed.

Mr. LEFEBVRE: Well, if your department was to do the same thing, would this lead eventually to other departments doing this also and the eventual abolishment of the Civil Service Commission? Each department could have its own employment manager or personnel manager, as such?

Mr. HENDERSON: I suppose that is possible. I cannot disagree that if such an exemption were made for me that others might feel they had the right to ask for it. But I have a full-time job filling my own needs and looking after my job as the saying goes: "Paddling my own canoe".

Mr. LEFEBVRE: But could this be a further recommendation of yours in some future report that each department is well aware of their needs, therefore they should be the ones to do the hiring?

Mr. HENDERSON: The Civil Service Commission, in the words of its Chairman, at the present time, is busy on seeking to decentralize just as much hiring authority as possible to deputy ministers. This is part of this total decentralization recommendation of Glassco, and the Commission has itself gone a long way toward delegating this, particularly in the area of promotions and things like that, promotional competitions. They themselves are trying to move in this direction. I do not think it is so much a question of simply exempting them and forgetting about the Commission, I think the Civil Service Commission has an important function to perform. One of the best outlines of that is contained in the Glassco Report. I might ask Mr. Long if he would like to add anything to this. He is more familiar perhaps with the details. Would you care to say something to that, Mr. Long?

Mr. LONG: At present we have gone about as far as we can with recruiting through the Civil Service Commission. We have a representative of the Commission in the office and he knows our problems. This is one difficulty we had before. If you have a man from the Commission coming in now and again, and it is a different man each time, he does not know our problems. There are certainly places where the Commission is in the best position to recruit, particularly where they need the same type of person for a number of departments. This, of course, makes it difficult for one department because the Commission is interested in the other department as well.

Mr. LEFEBVRE: If this holds true with the Auditor General's department it must hold true in other departments who wish to hire engineers, doctors or dentists or anything else.

Mr. HENDERSON: There is one difference, if I may say so, and that is that our office is an office of parliament and the Civil Service Commission itself is one of the departments of the executive which we audit, so is the Treasury Board.

Mr. LONG: I think we should keep in mind why the Commission is there. The Commission is there to try and stop departments competing with each other; and to eliminate patronage, and for this reason they have rules. We have

a case now of a very good man who left us to go into a chartered accountant's office with the hope of getting his degree. He left us with regret, he did not want to go; he enjoyed working with us. We were very sorry to see him go and we told him we would be glad to have him back. He has been out a year and he has decided he would like to come back. He has learned quite a lot and we would like to have him back. But we cannot just say: "Come in and start work on Monday." We now have to have a competition. We have to invite applications from anybody with the necessary qualifications. This means advertising. For a position in Ottawa it means a circular from coast to coast, and a newspaper advertisement. This all takes time. You have to screen out many applications that you couldn't possibly consider. We are just not free to take this man whom we know and who is qualified.

(Translation)

Mr. THOMAS (*Maisonneuve-Rosemont*): Mr. Henderson, I should like to ask you a question about the hiring of students during the vacation period. Do you have students working for you, that is to say, employees who take evening courses?

(English)

Mr. HENDERSON: Yes, I should have perhaps made that clear. The summer is our busy period strangely enough, because the year ends March 31. We take students on for the six months, that is second and third year commerce students and that sort of thing. Under the arrangements with the Institute we now have, as I mentioned in answer to your earlier question, our first six students are registered by the Institute of Chartered Accountants of Quebec. We hope they will stay with us for the next five years and obtain their degrees with us. They are entitled to get it. And that is the most desirable way of having your permanent junior staff set up and I hope if the Ontario Institute passes its bylaw change in May that we can do the same here in Ottawa. They work by day. The only way you can get your degree—and I am speaking of chartered accountants—is by working in the office of a chartered accountant and studying at night. It is a long, hard course and they take their courses at night. But in addition to that a considerable number of my other men are taking courses both in chartered accountancy and for their C.G.A. degree and for their R.I.A. degree. It is extremely heartening I wish I could tell you of some of the details but it would take too long.

Mr. NOBLE: Mr. Chairman, it seems to me, in listening to what has been said here this morning, that this is a continuing problem. Now, I am wondering, Mr. Henderson, what this committee could do to promote your philosophy and get you in a position where you are able to accomplish the work you want to do and get the proper authority, so that you will be in a position to pick the people you want to run this department properly.

Mr. HENDERSON: Mr. Noble, I remain indebted to your committee for its interest and its unanimity on this subject over many years. You reached the point in previous meetings where you recommended that the Financial Administration Act be changed. I would only hope that you will see fit to reiterate this and to convey that to the government of the day. I suppose its

priority on the government's totem pole of priorities is fairly low. It is a difficult thing for me to keep pressing after because as I say, my day to day working relationship with such bodies as Treasury Board and the Civil Service Commission, which I audit, are very important. They are perfectly well aware that this is a standing recommendation of this committee and by and large there does not seem to be too much disagreement with it, but unfortunately there is no action.

Mr. WINCH: Mr. Chairman: I do not think that Mr. Henderson should be put in the difficult position of having to press for this because this committee year after year has made this recommendation. I think it is the responsibility of the committee to ask the responsible minister or deputy to appear before us and tell us why this change which we have unanimously recommended year after year has not been put into effect. That is our responsibility as a committee.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, I strongly support the ideas that much of the hiring of the civil service should be done through the Civil Service Commission, but there are areas where I believe problems arise. I would like to ask Mr. Henderson if he could make a guess if he is free to do so—as to what part percentagewise of the whole public service is hired through the Civil Service Commission, what part of the civil service is hired directly by the corporations and departments involved. I know all public servants are not hired through the Civil Service Commission. Can you make a rough guess?

Mr. HENDERSON: I am just looking at the staff appendix in my report, Mr. Thomas. In my 1965 report there is an exhibit at the back, "summary of the employees of the public service" a complete listing by departments—

The CHAIRMAN: The number?

Mr. HENDERSON: Page 225 of the 1965 report. You will observe that employees on strength in the total public service of Canada—

Mr. LEBLANC: About the same number in French?

Mr. HENDERSON: No, pardon me; it is Appendix 2. You will see this is a summary of employees that I put in my report to give a sort of total picture and also the organization of the department. Have you found it all right?

(*Translation*)

Mr. LEBLANC: Documentation No. 2?

(*English*)

Mr. HENDERSON: You will notice the total employees on strength, departments, crown corporations and other instrumentalities are 331,825. Of this figure the crown corporations are 127,983 and the departments are 200,798 and other instrumentalities, like the Bank of Canada, are 3,044. So you have about 131,000 outside of the Civil Service Commission. They are doing their own engaging. This is the crown corporations and the other instrumentalities. Also some of the departments listed in that 200,000 figure are also outside the Civil Service Commission. We would have to go down the list and name them. For instance, in there are 1200 people in the Senate and the House of Commons. They are, of

course, outside the Civil Service Commission, but we group them in as a department for the purpose of this presentation. Does that answer your question, Mr. Thomas. I suppose you might say it is rather less than half.

Mr. THOMAS (*Middlesex West*): About half, you say?

Mr. HENDERSON: Yes. That would be my estimate.

Mr. THOMAS (*Middlesex West*): That is all I want.

Mr. HENDERSON: That is just a guess, but by no means are all employees of the public service recruited under the Civil Service Act.

Mr. THOMAS (*Middlesex West*): And for various reasons.

Mr. HENDERSON: The Chief Electoral Officer, for example, is in here. He is quite free to recruit his own people. I am asking, in effect, for the same right he has.

Mr. BALDWIN: Mr. Chairman, is this right? By the provisions of the Financial Administration Act you are the agent of parliament and you have a statutory duty within the terms of the sections which Mr. Tremblay referred to, which says you shall report annually to the House of Commons with respect to the matter set out, in the rest of that section of the Financial Administration Act, and you told us on several occasions, and we have supported you, that because of the methods carried out you are not able to report as fully and completely—I should not put it that way, you are not able to report—but you are unable to carry out your duties as completely as you would like to in order to comply with the statutory responsibility because of the method of engagement of staff. Would that be a fair summary?

Mr. HENDERSON: That is a fair statement. I have stated that in my past reports. Perhaps we should continue with the reports and then, with your permission—

The CHAIRMAN: Before we continue, Mr. Henderson, are there any members of this committee that are obligated to another committee at eleven o'clock? What would be the wish of the committee? I was in hopes we would have gone over this whole thing this morning but we cannot detain you if that is the case, I guess.

Mr. FORBES: What is the quorum on the committee.

The CHAIRMAN: Thirteen.

In about 15 minutes we could clean this report up.

Mr. HENDERSON: I will move a little faster on the remaining sections.

Mr. NOBLE: Mr. Chairman, before you leave this, is there any possibility of this committee promoting a resolution that would put the Auditor General's staff on the same basis as a crown corporation and give him the authority that a man in charge of a crown corporation would have.

The CHAIRMAN: Mr. Noble, when we come to write our report to the House we will discuss that and likely the committee will decide to do that at that time. All right, Mr. Henderson?

Mr. HENDERSON: The best example of that, if I may suggest to Mr. Noble, might be the Representation Commissioner. He has his own act and he is free to recruit his staff.

I will now move to number 14 on page 9. You made five recommendations on the C.B.C. Four of them have been implemented but there is one that has not been and that is the tabling of an official memorandum in the House on the views of the Corporation and its replies on the matters dealt with by the Glassco Commission. That has not yet been laid on the table and the comment on that speaks for itself.

Number 15 deals with National Defence Administrative Regulations and Practices. Again, I am setting those down in accordance with your instructions in my 1964-65 report which you will come to.

Number 16—Unauthorized use of Crown-owned Vehicles. We will continue to follow this up. You will notice the Minister of National Defence stated that the matter was with the Treasury Board. I wrote to the Secretary of the Treasury Board on February 24, 1966, to ask what steps were being taken but I have not yet had any reply.

Number 17—Financial Assistance to the town of Oromocto. Members of the committee will recall our discussions on that and I wrote to the Deputy Minister of Finance on this subject on February 24, 1966, but there has been no reply.

Number 18—Educational costs incurred by the Department of National Defence. We are making some progress on this and that is mentioned in my comment.

Number 19—Assistance to provinces by the armed forces in civil emergencies. The provinces did not settle their outstanding accounts. The Minister of National Defence told me a year ago there had been no change in the situation. I wrote to the Deputy Minister of Finance to inquire as to the status on February 24, 1966, and I have no reply yet.

Number 20—Pension awards effective at early age. This is a continuing problem. It is dealt with in my 1965 report and no doubt most members are familiar with it. I think it was discussed in the House but we will be coming to this when we deal with both the 1964 and 1965 reports.

Number 21—Discretionary awards of service pensions, that is to say, the basis on which they are being considered by the Pension Board. As you will see, the Minister of National Defence, in his last advice to me, said no decision had been taken yet.

Number 22—Overlapping of pension benefits. Again, the Minister of National Defence in his letter to me a year ago stated that no decision has been taken on possible amendments.

Number 23—Advances to the exchange fund account. This was a recommendation by the committee which, at the moment, is not of any serious import today because as I mention here, the holdings of the account have not dropped in value and there remained a surplus of over \$31 million at December 31, 1964.

Number 24—Errors in public service superannuation account pension and contribution calculations. This had to do with the high incidence of errors being made in the Superannuation Branch of the Department of Finance. I go into this in some detail in my 1965 report to the House, so that we shall be coming to that.

Number 25—Pension increased by payment of two salaries. You will note here that the Minister of Finance stated that these recommendations had been noted and are being considered in relation to possible amendments to the Public Service Superannuation Act.

Number 26—Reciprocal Transfer Agreements for Superannuation Benefits. The Minister of Finance gave me a similar reply a year ago, or rather he gave me a copy of his letter to the Chairman of the committee.

Number 27—Interest charges on loans to the National Capital Commission. This is a continuing problem and it is dealt with in my 1965 report. As is stated here, the National Capital Commission understands this recommendation places the initiative for the review on the Department of Finance. There has been no action yet.

Number 28—Accounts receivable. This is to record your concern over the weaknesses that existed in internal control with respect to accounts receivable, and you ask that the Treasury Board have the matter studied. The Minister of Finance advised the Chairman of the Committee that a study was under way. We are hoping to see a Treasury Board directive shortly on this important point.

Number 29—Indirect Compensation to Chartered Banks. This has to do with the fact that the chartered banks have \$100 million worth of government bank balances interest free. The Minister stated a year ago that consideration is being given to an appropriate recommendation to the Bank Act. In my 1965 report I point out that in a bill which was before the House last year, there was a paragraph inserted designed to permit the continuation of this practice of compensating the banks indirectly for services provided to the Crown by keeping non-interest bearing funds, which, as I say, are currently an aggregate of \$100 million, on deposit with them.

Number 30—The Canada Council. This will come before you as and when you examine the Chairman and offices of the Canada Council and my long form report on this. I think you will probably be devoting a full day's meeting to this.

Number 31—Surplus Assets Disposal. This covers 31, 32 and 33 at the top of page 15. Some progress has been made here but there have been no changes yet in the accounting and this is something that I think you will want to examine and which will come up as and when we discuss this matter.

Number 34—Hospital Construction Grants. I quote here a letter from the Deputy Minister of Health. That was about a year ago, and I am informed there is no change since.

Number 35—Awards under the Pension Act. The committee made a number of recommendations designed to clarify this Act after it heard from the Chairman of the Pension Board. The Minister of Veterans Affairs replied at length to the Chairman of the Committee on this a year ago and the substance of the recommendations which follow, which you will want to study in more detail, is that in his view, no changes can really be made. He gives his explanations as to why the present practices should be continued and you may, therefore, wish to study them. It can come up for discussion because again I deal with this subject in my 1965 report.

Exactly the same situation prevails in item 36—War Veterans Allowances. Again the Minister advises the Chairman why the recommendations of your committee are either not practicable or could not be done or would have to stand. You will recall the committee held a lengthy meeting. The Chairman of the War Veterans Allowance Board was present and each of these points was discussed. This was the expression from the Minister in regard to the committee's recommendations, and I felt I could do no more than to quote this in this fashion for your information.

Number 37—Amendment to the Customs Act and the Excise Tax Act—

Mr. WINCH: On item 37, could I ask Mr. Henderson while he is commenting on that, if he could just spend a moment or two on (D) for that is the very point that I raised earlier in this meeting. In a previous committee we were unanimous, as I remember, in accepting the contention of Mr. Henderson that there was no statutory sanction whatsoever for certain actions being taken on this sales tax matter. It has come to my attention that without the statutory sanction, and we requested that it be obtained, the same procedures are still being followed and as recently as last month, I discovered, and I have the factual evidence, that not only is it being continued but they are illegally operating against their own regulations made illegally without statutory sanction. I have conclusive proof of that, sir, now so I hope that perhaps we may have a comment from Mr. Henderson.

Mr. HENDERSON: The latest information I have on this, Mr. Winch, is that there has been no change since the Minister of Finance advised the Chairman of the Committee on March 4, 1965, and what he says is quoted on the bottom of page 19.

Mr. WINCH: Well, I hope we can give a high priority to number 37.

Mr. HENDERSON: This whole matter is awaiting, as the Minister said at that time, the report of the Royal Commission on Taxation before any change is to be made in the Excise Tax law and, of course, as you know, that is due to come down quite shortly. But in any event, may I say to you that we are going to deal with this in the 1965 report because I refer to the matter again there in connection with Customs and Excise tax.

Mr. WINCH: Because it may be some time before we get that, perhaps I should submit some of my discoveries to Mr. Henderson. He may want to look into them some more.

Mr. HENDERSON: I have no objection, sir, if you care to do that; I will be happy to receive them and to look into them. This might be of some assistance toward the discussion that will take place when the item is called in the 1965 report.

Mr. WINCH: Some of the steps being taken by the hierarchy under no statutory authority just pass all comprehension.

Mr. HENDERSON: Number 38—General Election Expenditures. This is a recommendation in which you supported the Chief Electoral Officer and hoped that an amendment would be considered by parliament. However, there has not been any change made yet.

Mr. MUIR (*Lisgar*): In regard to this, Mr. Chairman, I found it rather, I would not say amusing, but hard to understand that where a hall had been rented for the purposes of using two polls, they paid the full rent of the hall for both polls.

The CHAIRMAN: Both in the one building?

Mr. MUIR (*Lisgar*): I beg your pardon?

The CHAIRMAN: Both in the one building?

Mr. MUIR (*Lisgar*): They were both in the one building and both in one room, as a matter of fact, and yet the full amount of the rent of the hall was paid for both polls. This, I understand, is usual practice.

Mr. HENDERSON: I cannot speak on that specific case but you will recall your recommendation here stems from my comment on the election expenses paid at the time of the two elections in 1963. We, of course, have examined the accounts in respect to the November 8, 1965, election and it is not inconceivable that we might be dealing later with the very point you mention.

(*Translation*)

Mr. LEBLANC: Mr. Chairman, it is the same when an election occurs and the returning officer rents an entire school or the basement of a school and sets up six or seven polls in that basement. The school then receives payment for six, seven, or ten polls according to the number of polls rather than for rental of the hall itself.

(*English*)

Mr. HENDERSON: Thank you Mr. Leblanc. Number 39, concerns the committee's recommendation that the Auditor General be appointed either the sole auditor or a joint auditor under the provisions of the Financial Administration Act, of each Crown corporation, agency or public instrumentality in respect to which other auditors have been or may be appointed. As you know, there are seven crown corporations or instrumentalities of which the Auditor General is neither the auditor nor is he a joint auditor; it was as a result of a lengthy discussion of this that you made this recommendation that the Auditor General be appointed either the auditor or a joint auditor because several of these

corporations do, in fact, have two firms auditing their accounts. I am speaking of Central Mortgage and Housing, Bank of Canada etc.—the names are listed in my reports. You probably have seen them in 1964 and in 1965.

Mr. WINCH: The committee that brought in this recommendation—and again it was an unanimous recommendation—felt the matter was of very great importance. That is the reason they made the recommendation. Now, I note that all Mr. Henderson has received, according to what he says here, is that the Minister does not propose to initiate any action on these at the present time. Could I ask Mr. Henderson, is that all he is told? Is he given any reasons why they do not propose to initiate any action?

Mr. HENDERSON: No, I have not been furnished with any reasons on this. I was advised of this by a copy of the letter which the Minister of Finance wrote to the Chairman.

Mr. WINCH: You were never given any reason?

Mr. HENDERSON: No sir.

Mr. WINCH: Thank you.

Mr. LEBLANC: You will know when we get the witnesses here.

Mr. WINCH: I hope we will call them.

Mr. HENDERSON: And finally number 40 has to do with the audit of my own office. Under the Financial Administration Act an officer of the public service nominated by the Treasury Board examines and certifies to the House, in accordance with the outcome of his examinations, the receipts and disbursements of the Office of the Auditor General.

Your committee says that this committee should itself nominate a qualified person to examine my accounts and accordingly, this recommendation was conveyed to the Minister of Finance and his comment on it a year ago is, as you will see, similar to the previous one we just dealt with.

Mr. WINCH: One more question; there was a recommendation that on certain requirements or needs you would be able to bring in outside firms to assist with certain work. Was that policy accepted?

Mr. HENDERSON: I just do not recollect that, Mr. Winch. You are speaking of legal advisers.

Mr. WINCH: Yes.

Mr. HENDERSON: Yes. The question of legal advisers you will find mentioned in my 1964 report. Whereas in the past the Auditor General has had recourse to the Department of Justice, the matter was discussed before the committee with the Deputy Minister of Justice in attendance and the committee took the view that the Auditor General should have independent legal advice apart from the Department of Justice. Pursuant to your direction, and following discussions with the Minister of Finance, the Auditor General was given the necessary authority by the Governor in Council to engage outside solicitors and I duly reported back to the committee that I had made appropriate arrangements for two firms of solicitors. One is in Montreal and one is in Toronto.

The CHAIRMAN: Gentlemen, we close on item No. 40, Audit of the Office of the Auditor General. Who audits the Auditor General? I think that would be a good place to stop. You might like to make a note on page 21 "Committee Recommendation on which Action has been Taken". You might write opposite the fourth report, we made 12 recommendations, three acted on; nine no action. Fifth report, we made five recommendations; four completed and one no action. Sixth report, we made 15 recommendations; two completed and 13 no action. Eighth report, we made seven recommendations; one completed, six no action as of yet.

Mr. WINCH: This proves my contention that we had better make it very clear in this committee we are not going to stand for this kind of lack of attention.

The CHAIRMAN: You are quite right, Mr. Winch. But there are some cases where it is a matter of having an act amended and you know how long it takes to get some of these acts amended. I think this is the holdup in many of the cases. However, there are many other cases, as you say, that we must follow up.

Mr. WINCH: The government must recognize that this is not a rubberstamp committee just sitting here for the sake of sitting.

Mr. BALDWIN: For the benefit of the farmers present, Mr. Chairman, we could say 25 per cent germination.

The CHAIRMAN: Before we adjourn, may I ask for someone to move that the follow-up report of the Auditor General be printed as an appendix to the Minutes of Proceedings and Evidence.

Mr. WINCH: I so move.

Mr. BALDWIN: I second the motion.

Motion agreed to.

● (11.30 a.m.)

The CHAIRMAN: Thank you for coming and we will meet again after the Easter Recess.

Appendix 1

FOLLOW-UP REPORT BY THE AUDITOR GENERAL TO THE STANDING COMMITTEE ON PUBLIC ACCOUNTS ON THE ACTION TAKEN BY DEPARTMENTS AND OTHER AGENCIES IN RESPONSE TO RECOMMENDATIONS MADE BY THE COMMITTEE

In paragraph 9 of its Fourth Report 1964 presented to the House on July 28, 1964, the Committee requested the Minister of each department concerned to advise the Auditor General within three months as to what action had been taken on matters on which the Committee had made recommendations in this and future reports.

In order that the matters would not be overlooked, the Committee requested the Auditor General to provide to each such Minister copies of the aforementioned report and each subsequent report of the Committee to the House of Commons.

In accordance with this directive, each Minister was provided with copies of the Committee's reports as follows:

	<i>Date presented to House</i>	<i>Date copies thereof sent to Ministers</i>
Fourth Report 1964	July 28, 1964	August 5, 1964
Fifth Report 1964	August 5, 1964	August 5, 1964
Sixth Report 1964	October 20, 1964	October 20, 1964
Seventh Report 1964	December 7, 1964	December 10, 1964
Eighth Report 1964	December 7, 1964	December 10, 1964
Ninth Report 1964	March 15, 1965	March 17, 1965

Replies have been received from each of the Ministers concerning the Committee's recommendations as they affect matters within each Minister's area of responsibility. In addition, deputy ministers of several of the departments concerned have furnished helpful information in many cases.

This is my report on the situation as at February 28, 1966 respecting each of the recommendations made by the Committee in the foregoing reports and in its Fourth Report 1963 which had been presented to the House on December 19, 1963, prior to the above arrangements.

The description of each of the recommendations made by the Committee is the one given in Appendix 1 of my Report to the House of Commons for the year ended March 31, 1965, listing "Recommendations and Observations by the Standing Committee on Public Accounts not yet implemented or dealt with by Executive action".

Fourth Report 1963—presented to the House on December 19, 1963

1. *Second Class Mail.* The Committee expressed its belief that early consideration should be given by Parliament to ways and means of covering the loss of the Post Office Department in handling second class mail and requested the Auditor General to keep the matter before Parliament in his annual Reports in order that subsequent committees may give consideration to it.

Comment by the Auditor General: I dealt with this matter in paragraph 79 of my 1964 Report to the House and again in paragraph 105 of my 1965 Report to the House, tabled in the House on February 1, 1966.

The costs of handling the various classes of mail have in the past been estimated by the Department by means of a cost ascertainment procedure in which time studies were used. The last departmental time study was in 1961-62.

In 1964 the Department engaged a firm of consultants to examine its cost ascertainment procedures with a view to establishing accurate costs with respect to the various classes of mail. The procedures recommended by the consultants were put into effect only in January 1965 and no figures are available to indicate the loss in handling second class mail for the year 1964-65. The loss in 1963-64 had been estimated at \$35 million which included \$1.5 million attributable to a special second class rate on newspapers and magazines mailed by the public. This rate was discontinued effective April 1, 1964.

During the year second class revenues increased by \$250,000 to \$8,433,000. The Department attributes the increase in part to the increase in postage rates on third class matter which was effective April 1, 1964 and which induced a large increase in applications for second class privileges for publications previously mailed as third class matter. With effect from April 1, 1964, there was also an increase in the postage rate on publications sent to foreign countries other than the Americas.

It will be recalled that three statutory rate revisions with respect to second class mail were proposed in a resolution presented to the House of Commons on March 4, 1964 which was debated on April 30, 1964. However, the resolution was not proceeded with. We were informed at the time that the three proposals were primarily intended to simplify the rate structure and they would probably reduce the revenue from publishers by approximately \$135,000 annually.

2. *Departmental operating activities.* The Committee reiterated its belief that it would be desirable, in order that Members may have a clear understanding of the true financial results of departmental trading and servicing activities, were overall financial statements reflecting these activities to be included in the Public Accounts, provided this can be done without undue cost or staff increases. The Committee requested the Auditor General to continue to keep the development of this objective under close surveillance and to report thereon to the Committee in due course.

Comment by the Auditor General: The development of this objective, which has received consistent support from the Committee, was the subject of detailed comment in paragraph 161 of my 1964 Report to the House. It has again been dealt with in paragraph 211 of my 1965 Report.

As indicated in paragraphs 211 to 221 of my 1965 Report, a number of the larger departments and agencies involved in trading or servicing activities have reached or are progressing toward the development of financial statements along the lines recommended. It is hoped that this practice will continue to grow because wider use of accurate periodic comparative financial statements is essential if departments and agencies at all levels are to exercise an effective scrutiny and control of their costs.

It remains my intention to keep the development of this objective under close surveillance and to report thereon to the Committee.

3. *Internal financial control.* The Committee requested the Auditor General to continue his examinations into the important area of internal financial control and to report further to the House on steps taken or which should be taken to improve financial management in the various departments, Crown corporations and other instrumentalities.

Comment by the Auditor General: Further reference was made to the importance of this subject in paragraph 8 of my 1965 Report to the House. In my opinion, greater progress could be made in recognizing the importance of internal audit. While a number of the larger departments and Crown corporations possess their own staffs, a number have not yet taken steps along these lines even though the circumstances justify it. On the other hand, in the related field of pre-audit, staffs are larger and methods more elaborate than modern

practice requires. I do not believe the solution to these problems lies in engaging more staff but rather in making more effective use of the staffs presently engaged in internal auditing, including pre-audit work, coupled with a freer exchange of ideas among the various departments, Crown corporations and other agencies.

It is my intention to continue my examinations into this important area and to report further to the House.

4. *Unemployment assistance.* The Committee shared the opinion of the Deputy Minister of Welfare and the Auditor General that consideration should be given by Parliament to redrafting the Unemployment Assistance Act so as to state more clearly the objectives and methods of achieving them and to remove ambiguities in the present law which have resulted in varying interpretations. It believed that consideration should also be given to including with Unemployment Assistance other existing programs to assist the needy so as to provide better co-ordination of federal-provincial efforts in this field.

Comment by the Auditor General: The importance of this legislation being redrafted so as to state more clearly the objectives of the Act and methods of achieving them and to remove ambiguities in the present law which give rise to varying interpretations continues to receive the attention of the Minister of National Health and Welfare.

I dealt with this matter in paragraph 67 of my 1964 Report and again in paragraph 87 of my 1965 Report. The latter points out how, during 1965, discussions took place between the federal and provincial governments with a view to introducing a comprehensive assistance plan which would embody assistance to all persons in need including those presently eligible for social assistance in such forms as unemployment and old age assistance and blind and disabled persons' allowances. Further discussions between representatives of the federal and provincial governments were held January 7 and 8, 1966. In addition, it will have been noted that reference was made in the Speech from the Throne to the effect that legislation covering the Canada Assistance Plan would be introduced at the present session of Parliament and we are informed that both the Department of National Health and Welfare and the Department of Justice are currently working on a draft of the Bill.

Fourth Report 1964—presented to the House on July 28, 1964

5. *Findings of the royal commission on government organization.* The Auditor General referred to the numerous and widespread findings made public in 1962 and 1963 by this Royal Commission as a result of its examination into the organization and methods of operation of departments and agencies of the government. He reminded the Committee that where administrative action has caused or contributed to waste of public money, it is his duty to report such cases as he considers should be brought to the notice of the House. He pointed out that while some instances come to his attention directly during the course of his audit work, others are indirectly brought to light by action on the part of the administration itself in the course of examining its own operations, as, for example, through the medium of internal auditing.

By the same token, he considers it to be his duty to study reports prepared by or for the managements of departments and agencies, as are by law available to him, directed toward the saving of public money by the elimination of wasteful practices and unnecessary or uneconomical operations. To the extent such reports correctly indicate where and how savings could be made, the Auditor General considers he has a responsibility to Parliament to follow through in all such cases and ascertain what action has been or will be taken toward achieving such savings, or if no action is to be taken, to inquire why. On the other hand, he does not conceive it to be his responsibility to assess the practicability of any specific recommendations made because, in his view, the decision with respect to the extent to which, or the ways in which, such recommendations can and will be implemented must always be the sole responsibility of management.

With regard to the findings of the Royal Commission on Government Organization, the Auditor General believes it to be of considerable importance that those relating to outdated procedures, uneconomical operations and wasteful practices be effectively dealt with, not only in the interests of improving efficiency but because of the substantial savings of public funds which could result. It is the opinion of the Committee that not only does this lie within the statutory responsibilities of the Auditor General but that the Auditor General's concept of his responsibilities in this matter is in accord with the intent and wishes of Parliament.

Comment by the Auditor General: In my 1964 Report to the House I pointed out in paragraph 7 that the state of studies under way at that time by the Secretary of the Treasury Board had led me to the conclusion that I should defer reporting to the House on the findings in question until the Executive had made its final decisions on the Commissioners' basic or major recommendations, particularly in the area of financial management. Only then could a proper assessment be made as to whether or not the outdated procedures, uneconomical operations and wasteful practices disclosed by the Commissioners are to be effectively eliminated.

Although a number of final decisions on the Commissioners' basic or major recommendations still remained to be taken by the Executive, a detailed study was made by the Audit Office during 1965 of each of the 24 Reports of the Royal Commission on Government Organization. The results of this study are set forth in paragraph 7 of my 1965 Report for the information of the House.

6. *The form and content of the Estimates.* In its Third Report 1963 tabled in the House on December 19, 1963, the Committee had made the following immediate recommendations under paragraph 3:

- (a) Implemented
- (b) Inclusion of supporting financial information of Crown corporations and other public instrumentalities in the Details of Services for the purpose of providing better information to the Members and to the

public with respect to the nature of the fiscal requirements of the Crown corporations and other agencies requiring financing by parliamentary appropriations.

- (c) Presentation of additional information in the Estimates concerning the staff of all government departments and the Crown corporations and other public instrumentalities referred to under clause (b) above:
 - (i) *Implemented*
 - (ii) brief notes explaining proposed major increases in the size of establishments.

The Secretary of the Treasury Board explained to the Committee that he had not yet been able to discuss with any of the Crown corporations or public instrumentalities the practicability of including supporting financial information in the Estimates with respect to their operations. He undertook to do so and to advise the Auditor General for the information of the Committee.

The members of the Committee were glad to learn from the Secretary of the Treasury Board that he supported the recommendations made under this heading by the Auditor General in his Reports to the House. The Committee believes that there is room for improvement in the Estimates presentation designed to provide more informative description and more complete disclosure of pertinent supporting detail—information which, in the opinion of the Committee, is essential if Parliament is to be in a position to give the Estimates the close study and consideration they deserve.

The Committee also recommended that consideration be given to referring the departmental Estimates in greater numbers to the Standing Committee on Estimates so that it might examine them in detail and report back thereon to the House. It believed such a procedure would not only accelerate the work of the House but would contribute materially to improving parliamentary control of public funds before those funds are committed or spent.

Comment by the Auditor General: While reference was made to the status of this matter in paragraph 8 of my 1964 Report to the House, further up-to-date information is now contained in paragraph 9 of my 1965 Report.

An examination of the 1966-67 Main Estimates, which were tabled on February 14, 1966, indicates that the recommendation of the Committee that supporting financial information concerning Crown corporations and other public instrumentalities be included in the Details of Services has not been followed.

While the appendix entitled "Public Service Employment" which appeared for the first time in the 1965-66 Main Estimates in response to the Committee's recommendation (item (c) (i)) has been repeated in the 1966-67 Main Estimates, the explanations for major proposed increases in the establishment, as recommended by the Committee, have not yet been provided.

The Committee's recommendation shown as implemented under (a) related to the adoption of the revised vote pattern proposed by the Treasury Board for introduction into the Main Estimates 1964-65, subject to certain improvements suggested by the Auditor General to the Committee. While this was implemented, I pointed out to the House in paragraph 51 of my 1965 Report how the vote pattern actually used in the 1964-65 Estimates differed in certain instances from the pattern which had been considered by the Committee and this will presumably be discussed by the Committee as and when it studies my 1965 Report.

7. *Living Allowances to Federally-Appointed Judges.* In its Fourth Report 1963 the Committee had noted that in cases where judges were appointed from time to time as conciliators or arbitrators on boards, they were paid living allowances of \$60 a day in addition to actual out-of-pocket expenses for transportation, parlour and pullman car accommodation and taxicabs. The Committee was of the opinion that a daily rate at this level could be regarded as including an element of remuneration which would be contrary to subsection (1) of section 39 of the Judges Act. It had therefore recommended that if additional remuneration was to be paid to judges appointed for the purposes described above, the approval of Parliament for payment of such additional remuneration should be sought.

The Committee recorded that, despite this recommendation, a case had since been noted where a rate of \$100 a day was approved on May 7, 1964 by the Treasury Board and the Governor in Council on the recommendation of the Department of Labour.

The Committee reiterated the recommendation made in its Fourth Report 1963 that if additional remuneration was to be paid to judges appointed as conciliators or arbitrators on boards established to deal with disputes affecting employers and their employees, the approval of Parliament for payment of the additional remuneration should be sought.

Comment by the Auditor General: No action has been taken toward remedying this matter which was originally brought to attention in my 1962 Report to the House.

Paragraph 70 of my 1965 Report to the House, in referring to the Committee's recommendation, cites two additional circumstances noted which support my opinion that the amounts of the living allowances being paid to federally-appointed judges are such that an element of remuneration is included therein and consequently they are contrary to existing legislation covering payments to judges.

8. *Governor General's Special Warrants.* The Committee recommended that a study be made of Governor General's special warrants.

Comment by the Auditor General: I have not been informed of any study having been made along the lines recommended by the Committee. In this connection it might be noted that on March 4, 1965 the Minister of Finance advised the Chairman of the Committee as follows:

In the course of discussion in the Public Accounts Committee (June 1964) on the subject of Special Warrants, the Secretary of the Treasury Board undertook to consider the desirability of enlarging on the special Governor General's warrant provisions in the Financial Administration Act (in particular section 28), in order to clarify its application to situations arising when Parliament is dissolved without having appropriated the necessary expenses of the Public Service. Suggestions have been discussed for changes in this section of the Financial Administration Act, and these are now being studied. Should the Government decide that an amendment to the Act is desirable it will present its proposals to Parliament in the usual way.

9. *Remission of sales tax on oleomargarine.* The Committee was concerned to learn that the undertaking given in 1949 that the Government would submit to Parliament legislation designed to exempt oleomargarine sold in Newfoundland from the federal sales tax in the same manner as basic foodstuffs in other parts of Canada had not been carried out. Instead, the authority provided to the Executive by section 22 of the Financial Administration Act had been used to render a tax, applicable elsewhere in Canada, completely inoperative in one province.

The Committee stated that it does not consider that section 22 of the Financial Administration Act should be used in this way.

Comment by the Auditor General: Section 22 of the Financial Administration Act continues to be used in this way and I am not aware of any action being taken to discontinue the practice.

10. *Cost of gasoline used in departmental vehicles at Ottawa.* The Committee learned from the Secretary of the Treasury Board that an alternative means of effecting savings in the purchase of gasoline was presently being considered. Having in mind the time which had elapsed since the matter was first taken under consideration, the Committee urged the Secretary of the Treasury Board to have the matter finalized at the earliest possible date. The Committee further requested that the Secretary of the Treasury Board provide it in due course with information as to the final decision in this matter and also as to the various alternatives which were considered and, with respect to those which were rejected, the reasons for such rejection.

Comment by the Auditor General: The Treasury Board at its meeting on March 31, 1965, approved implementation of a national credit card system for Crown-owned vehicles operated by civilian Government departments and for which gasoline is now purchased from service stations. Department of Public Works' vehicles maintaining the Northwest Highway system were not included. In order to permit implementation of the scheme the Board authorized the Department of Defence Production to enter into formal agreements with certain suppliers who had offered attractive discounts which it was estimated would result in annual savings of \$158,000.

We have been informed by the Department of Defence Production that agreements have been entered into with suppliers and the necessary administrative procedures for the implementation of a national credit card system for

the purchase of gasoline for Crown-owned vehicles have been developed and were submitted to the Treasury Board on February 11, 1966 for approval. It is anticipated that the new procedures will become effective April 1, 1966. However, participation by the Royal Canadian Mounted Police is still under study.

It is gratifying to note that this matter, which was first drawn to attention in my 1961 Report to the House and on which it is estimated that annual savings of \$158,000 can result, is about to be brought to fruition.

11. *Unemployment Insurance Fund and its Administration.* The Committee stated its opinion that it is in the public interest that the Government's consideration of the report of the Committee of Inquiry be completed as soon as possible, and that the Government bring forward promptly such proposals as it may deem necessary to deal with the problems raised by the report.

The Committee also reiterated the additional recommendation made in its Fourth Report 1963 that preparation of the annual financial statements for the Unemployment Insurance Fund should be made a statutory responsibility of the Unemployment Insurance Commission and that the statements should be reported on by the Auditor General.

Comment by the Auditor General: The Minister of Labour wrote to me in the following terms on this subject under date of March 10, 1965:

In reply to your letter of February 26th and more specifically to the observations made in the Fourth Report of the Public Accounts Committee, dated July 28th, 1964 relating to the Unemployment Insurance Fund administration, the Prime Minister stated on February 20th, 1964 in the House of Commons:

One of the many examples of pending measures—it is one not only of importance but one which is very close to many members, indeed to all members—is the reform of unemployment insurance. The large reduction in unemployment which has been achieved in recent months has made this a less dramatically urgent problem than when the unemployment insurance fund had to be rescued from bankruptcy, but reforms certainly are required. The House was informed at the start of the last session that legislation was under consideration, and that consideration has been proceeding. If the parliamentary timetable permits, we will be ready with legislation later in the year.

This was the position of the Government at that date and continues to be the position today.

With respect to the preparation of the Annual Financial Statements of the Unemployment Insurance Fund, dealt with in paragraph 37 of the Fourth Report, this is a matter which you would appreciate will require a revision of the Unemployment Insurance Act. In the meantime, I might add that informal arrangements have been made, as you are aware, for the Auditor General to audit the Annual Financial Statements of the Unemployment Insurance Fund.

12. *Board of grain commissioners.* In its Fifth Report 1961 the Committee had stated that it felt concerned that in each year since 1953-54 the expenditure of this activity had exceeded its revenue by more than \$1 million and it requested the Auditor General to keep this matter under review and report thereon to the Committee in due course.

Comment by the Auditor General: Expenditures of the Board, including the estimated cost of \$294,000 for services provided without charge by other government departments, exceeded revenues by \$1,823,000 for the year ended March 31, 1965.

Effective August 1, 1965 the fees charged by the Board for inspection and weighing services have been increased by 50%. Had the increased rates been in effect throughout the year ended March 31, 1965, the Board's revenues would have been \$1,760,000 greater.

Although it is doubtful that the increased fees will fully cover the continually increasing costs of the Board, the increase was nevertheless substantial and the Committee may feel disposed to observe the results of operations for the next two or three years without further special reports.

13. *Office of the Auditor General.* In the opinion of the Committee, it is fundamental that this independent auditing office be strong, capable, efficient and equipped to operate in accordance with the high standards of independence and objectivity expected of professional accountants, with respect to the legal duties.

The Committee believes that as an officer of Parliament the Auditor General should be free to recruit the staff he needs in the same independent manner as do other officers of Parliament and Crown corporations generally. The Auditor General informed the Committee that the recruitment outlook was currently satisfactory and that, barring any unforeseen developments, he believed that he could fill his presently approved staff establishment under existing arrangements by the end of the year. The Committee therefore asked him to render a further report on this situation in due course.

The Committee noted that amendments to the Financial Administration Act were to be introduced in due course and believed appropriate amendments should be considered at that time designed to allow the Auditor General to appoint such officers and employees as are necessary for the proper conduct of his Office.

Comment by the Auditor General: As explained in paragraph 11 of my 1965 Report to the House, the Audit Office's working strength totalled 193 at November 30, 1965 compared with 173 approximately a year earlier. The approved staff establishment remains at 220 and, with its current working strength at 198, the Office is thus short 22 employees at the present time. Although this shortage continues to place a heavy burden on the Office in carrying out its responsibilities, it has been possible to increase and diversify the scope of its work to a certain degree. The extent to which this can be developed further must depend on the success that can be achieved by the Civil Service Commission in filling the existing establishment vacancies.

No action has been taken with respect to the Committee's recommendation that an appropriate amendment be made to the Financial Administration Act to allow the Auditor General to appoint such officers and employees as are necessary for the proper conduct of his Office.

Fifth Report 1964—presented to the House on August 5, 1964

Canadian Broadcasting Corporation

14. *Report of the Royal Commission on Government Organization.* The Committee recommended that the Secretary of State table an official memorandum in the House presenting the views of the Canadian Broadcasting Corporation and its replies to each of the matters dealt with by this Royal Commission in its Report 19 and that this be done before the estimates of the Corporation are considered by the House.

Comment by the Auditor General: Reference is made to this recommendation of the Committee in paragraph 187 of my 1965 Report to the House. Although no action has been taken yet along the lines recommended by the Committee, it will be noted from the lengthy comments on the Royal Commission studies in chapter 8 of its report that the Advisory Committee on Broadcasting was furnished by the Corporation with a 118-page memorandum containing its views on Report 19 of the Royal Commission on Government Organization. Presumably this memorandum will be available for tabling in the House in response to the request made by the Committee and will provide the information sought by the Committee.

Sixth Report 1964—presented to the House on October 20, 1964

15. *National Defence Administrative Regulations and Practices.* The Committee expressed the hope that the changes which have been made or are in the process of being made in the Armed Forces' administrative regulations will bring about the desired results. It requested the Auditor General to inform the House of any case where the changes appear to be inadequate or where abuse and waste of public funds develop.

Comment by the Auditor General: In accordance with this request, four matters were dealt with in paragraph 56 of my 1964 Report to the House and two of these were further dealt with, and one new item was introduced, in paragraph 73 of my 1965 Report to the House.

16. *Unauthorized use of Crown-owned Vehicles.* The Committee recommended the regulations be amended to provide for uniform penalties of sufficient magnitude, applicable to all personnel, to act as a real deterrent to the unauthorized use of Crown-owned vehicles.

Comment by the Auditor General: There has been no further change in the situation surrounding this recommendation since the Minister of National Defence advised me on March 5, 1965 as follows:

Treasury Board has received statistics on this matter from all departments operating large fleets of vehicles. An examination of the statements, which cover a two-year period ending March 31, 1964, will determine if penalties are being applied in a consistent and uniform manner.

It is expected that following this examination steps will be taken to ensure uniformity throughout all departments.

We have asked the Secretary of the Treasury Board for advice as to what steps are being taken to implement this Committee recommendation.

17. *Financial assistance to town of Oromocto.* The Committee recommended to the Department of Finance that consideration be given to writing off to expense certain loans made to the Town.

Comment by the Auditor General: The Minister of Finance advised the Chairman of the Committee about this matter on March 4, 1965, as follows:

A study is currently under way to determine how these loans and, indeed, all assets such as these should be reflected in the accounts of Canada. The study will include consideration of whether these loan items should be written off to expenditure, and if not, how they should be expressed and at what value. Also, consideration is being given to the possibility of creation of specific reserves associated with specific classes of assets.

We have asked the Deputy Minister of Finance for advice as to what steps are being taken to implement the Committee recommendation.

18. *Educational costs incurred by the Department of National Defence.* The Committee requested the Auditor General to follow this matter up to determine that amounts of grants underclaimed in the past are recovered and that practices adopted by the Department to avoid losses in the future are adequate.

Comment by the Auditor General: In this connection the Minister of National Defence advised me on March 5, 1965 as follows:

National Defence officials have met with officials of the Ontario Department of Education in order to clarify the preparation, audit and certification of annual financial reports.

The financial reports for 1964 are now being progressively audited by the Deputy Minister's auditors and submitted to the Ontario Department of Education. The school boards are being instructed, during the course of audit, on the proper completion of the reports.

Financial reports for the years 1961 to 1963 have been revised and submitted to the Department of Education which has agreed to accept these for payment of grants previously underclaimed.

We are informed that revised claims in respect of the grants underclaimed have now been accepted by the provincial authorities and are being processed for payment; departmental instructions have been issued designed to avoid future losses.

19. *Assistance to provinces by the armed forces in Civil emergencies.*

The Committee noted that certain provinces had not settled outstanding accounts with the Department of National Defence relating to assistance provided by the Armed Forces in civil emergencies in prior years. It also noted that as the Department had not been successful in collecting the accounts, they had been referred to the Executive for direction but such direction had not as yet been received. The Committee directed the Auditor General to inform it of the final outcome of these matters.

Comment by the Auditor General: No further advice is available on this situation since March 5, 1965 when the Minister of National Defence advised me that "there has been no change from the situation as reported to the Public Accounts Committee". It might also be noted that on March 4, 1965 the Minister of Finance advised the Chairman of the Committee that "no decision has yet been reached with respect to this question. A satisfactory solution is still being sought".

I have asked the Deputy Minister of Finance to inform me where this matter stands.

20. *Pension awards effective at early age.* The Committee noted that the Department of National Defence has been conducting a general review of the benefits payable under the Canadian Forces Superannuation Act and has been considering the advisability of introducing deferred pensions similar to those provided for under the Public Service Superannuation Act and that this review is continuing. The Committee requested the Auditor General to keep it informed as to the progress being made in the introduction of deferred pension benefits for servicemen retiring at comparatively early ages.

Comment by the Auditor General: I was advised on March 5, 1965 by the Minister of National Defence that "no decision has been taken on possible amendments to the Canadian Forces Superannuation Act pending the completion of studies undertaken following the decision to integrate the forces which will have a bearing on those decisions."

It will be noted that paragraph 84 of my 1965 Report deals with this matter. The Department has been reviewing the existing provisions of the Canadian Forces Superannuation Act and has been considering the merits of providing deferred annuities similar to those available to civilian employees but does not contemplate proposing any changes until a more detailed study embracing the implications of the Canada Pension Plan has been completed.

21. *Discretionary awards of service pensions.* The Committee noted that the Department of National Defence is making a study in an endeavour to achieve a system under which the entitlements to all pensions would be specific which, if this were possible, would eliminate the considerations of the Pension Board which is now responsible for establishing reasons for release. The Committee requested the Auditor General to advise it in due course of any action taken to revise the present system.

Comment by the Auditor General: Further reference to this problem is to be found in paragraph 65 of my 1964 Report and again in paragraph 85 of my 1965 Report to the House.

As in the case of item 20, the Minister of National Defence advised me on March 5, 1965 that "no decision has been taken on possible amendments to the Canadian Forces Superannuation Act pending the completion of studies undertaken following the decision to integrate the forces which will have a bearing on those decisions."

22. *Overlapping of pension benefits.* The Committee was pleased to hear from the Deputy Minister of National Defence that it is his intention when the Canadian Forces Superannuation Act is to be amended to bring this matter to the attention of the Ministers with a view to preventing future incidents of this kind. The Committee requested the Auditor General to keep it informed as to progress made.

Comment by the Auditor General: No further information is available regarding this matter since the Minister of National Defence advised me on March 5, 1965 that, as in the case of items 20 and 21 above, "no decision has been taken on possible amendments to the Canadian Forces Superannuation Act pending the completion of studies undertaken following the decision to integrate the forces which will have a bearing on those decisions."

23. *Advances to the Exchange Fund Account.* The Committee recommended that in the event the holdings of the Account drop in value by an amount sufficient to eliminate the surplus of \$30.3 million at December 31, 1963 and create a deficit in the Account, the Minister of Finance of the day give immediate consideration to the elimination of the deficit in order to maintain the full value of the advances made from the Consolidated Revenue Fund to the Exchange Fund Account.

Comment by the Auditor General: A summary of the Exchange Fund Account is contained in paragraph 177 of my 1964 Report and in paragraph 228 of my 1965 Report to the House. It will be noted that the holdings of the Account have not dropped in value and there was a surplus of \$31.7 million at December 31, 1964.

24. *Errors in Public Service Superannuation Account Pension and Contribution Calculations.* The Committee expressed concern that this matter (first drawn to the attention of the Department of Finance by the Auditor General in 1959), which it regards as being very serious, is taking so long to be corrected. It requested the Auditor General to keep it fully informed.

Comment by the Auditor General: In my 1964 Report to the House I outlined in paragraph 51 how the responsibility for the operation of the Superannuation Branch had been placed under the direction of the Comptroller of the Treasury in December 1963.

The extent to which the high incidence of errors continues in the Superannuation Account pension and contribution calculations is described in paragraph 64 of my 1965 Report to the House.

25. *Pension increased by payment of two salaries.* The Committee stated it expects to see suitable amending legislation introduced in due course to protect the Public Service Superannuation Account from excessive annuity charges and requested the Auditor General to keep it fully informed.

Comment by the Auditor General: The Minister of Finance advised the Chairman of the Committee on March 4, 1965 as follows:

The recommendations contained in these sections (items 25 and 26) ...have been noted and are being considered in relation to possible amendments of the Public Service Superannuation Act.

26. *Reciprocal transfer agreements for Superannuation Benefits.* The Committee suggested that when the Public Service Superannuation Act is next amended a suitable amendment be introduced which will provide for the disposition of any excess amounts of contributions in reciprocal transfer cases.

Comment by the Auditor General: The Minister of Finance advised the Chairman of the Committee on March 4, 1965 as follows:

The recommendations contained in these sections (items 25 and 26) ...have been noted and are being considered in relation to possible amendments of the Public Service Superannuation Act.

27. *Interest charges on loans to the National Capital Commission.* The Committee recorded how, in its Fourth Report 1963, it had expressed the view that since outlays on properties such as those held by the National Capital Commission are expenditures of the Crown rather than income-producing investments, it would be more realistic were Parliament asked to appropriate the funds in the years in which properties, which are not to be specifically held for resale, are to be acquired, instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years.

After hearing further evidence, the Committee stated it continues to hold the view that outlays on properties such as these are expenditures of the Crown rather than income-producing investments, and that Parliament should be asked to appropriate the funds in the years in which the properties are to be acquired. It pointed out that if this were done it would eliminate the need for Parliament to appropriate funds to the Commission to service loans made under the present practice. The Committee repeated its request that the Department of Finance review the existing practice with the National Capital Commission with a view to placing the financing of the Commission on a more realistic basis.

Comment by the Auditor General: The Deputy Minister of Public Works advised on February 24, 1965 that the National Capital Commission is fully conversant with the various facets of this problem and is awaiting further directions from the Department of Finance in this regard. The Commission understands this recommendation places the initiative for the review on the Department of Finance.

As is indicated in paragraph 202 of my 1965 report, the practice of charging interest continues unchanged. This practice in its wider implications is dealt with in my 1965 Report under paragraph 167.

28. *Accounts receivable.* The Committee expressed concern that weaknesses exist in the internal control with respect to accounts receivable and suggested that the Treasury Board have the matter studied with a view to ensuring that amounts due to the Crown are adequately recorded, that an accounts receivable control system is instituted and that collection procedures are tightened up and firmly enforced.

Comment by the Auditor General: I have been advised by several departments as to steps taken to improve their accounts receivable systems and tighten collection procedures.

On March 4, 1965 the Minister of Finance advised the Chairman of the Committee that a study was under way to ensure that amounts due to the Crown are adequately recorded and to institute an accounts receivable control system. A Treasury Board directive on this subject is expected momentarily.

The Committee had also recommended that a summary showing the overall total of accounts receivable be included in the Public Accounts each year. This recommendation has been implemented and a summary by departments appears on page 9.25 of Volume I of the Public Accounts for 1964-65.

Reference is also made to paragraph 168 of my 1965 Report to the House.

29. *Indirect compensation to chartered banks.* The Committee recalled that, in its Fourth Report 1963, it had advised the House that it was in agreement with the view of the Auditor General that the arrangement existing between the chartered banks and the Government of Canada does constitute indirect compensation to the chartered banks and that this may be construed as being contrary to the intent of section 93(1) of the Bank Act.

The Committee reiterated its belief that, if the banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1965.

Comment by the Auditor General: The Minister of Finance advised the Chairman of the Committee on March 4, 1965 that he had noted the above recommendation of the Committee and that consideration was being given to an appropriate amendment to the Bank Act.

Reference to this is made in paragraph 62 of my 1965 Report to the House wherein it is pointed out that subsection (2) of clause 93 of Bill C-102, which was given first and second readings and referred to the Standing Committee on Finance, Trade and Economic Affairs during the 1965 session of Parliament, was designed to permit the continuation of the practice of compensating the banks indirectly for services provided to the Crown by keeping non-interest bearing funds (currently an aggregate of \$100 million) on deposit with them.

30. *The Canada Council.* The Committee stated that, in its Fourth Report 1963, it had noted that the Council proposed to accept the 1956 census as a basis for distribution of the profits realized and interest earned on the University Capital Grants Fund and also to accept the "hotch-pot" or trust fund approach to this distribution. Because of doubts expressed by other legal counsel and the Auditor General as to the propriety of applying these bases, the Committee had postponed further consideration of the matter.

The Committee was informed that in the interim the Council had proceeded to allocate and distribute funds resulting from profits realized and interest earned on the foregoing bases. The Committee regarded the approach as a reasonable one, but because of the conflicting views held as to whether the action taken is ultra vires of subsection (2) (b) of section 17 of the Canada Council Act, recommended that steps be taken to seek amending legislation to provide clear authority for the Council to use the 1956 census and the "hotch-pot" approach in the distribution of interest and profits in respect of the University Capital Grants Fund.

Comment by the Auditor General: In a letter to the Chairman of the Committee dated March 8, 1965, the Secretary of State stated:

In dealing with the Sixth Report of the Committee concerning the Canada Council, this proposal suggests a clarification of the legislation in respect of the use of the 1956 census data. This, of course, is a good suggestion which the Government would like to keep open at this time since a number of other points relating to the Canada Council are under consideration, and these, also, could result in the need for legislative amendment. Until this study has been completed, it is not intended to propose that the House consider minor amendments.

Seventh Report 1964—presented to the House on December 7, 1964

Surplus Assets Disposal

31. The Committee expressed deep concern that while physical inventory quantities are maintained and are readily available in respect of all of the equipment and supply items maintained by the Department of National Defence, the purchase cost of the materials, including supplies and equipment stores at supply depots and at repair and overhaul contractors' establishments, is not available. In accordance with sound business practice, it would be reasonable to ascertain, for the purposes of financial management control, the value of the inventory and what it costs to store and handle such an inventory.

32. While the Committee expressed its satisfaction with the supervisory methods exercised by the Department of National Defence over its physical inventory quantities, it did not see how the Department can perform a really effective job of inventory management without knowing the value of the inventory and what it costs to carry it. Furthermore, the lack of any cost or carrying values has rendered it difficult for the Committee either to form any reasonable estimate of the value of the

supplies on hand or to determine what would seem to be a reasonable inventory level for a department the size of the Department of National Defence to maintain for the requirements of the three Armed Forces. In this connection it should be borne in mind that appropriations approved for the Department of National Defence have aggregated an average of \$1,646 million annually, of which \$421 million related to equipment, materials and supplies, over the past five years so that it does not seem unreasonable for the Committee to expect that some maximum dollar figure of values should be established to govern the size of the inventory. It was explained to the Committee by the officials of the Department of National Defence that the Department has been studying this matter for some time and the hope is entertained that it will be possible in due course to record the dollar value of this stock subject to the extent to which the recommendations of the Royal Commission on Government Organization are implemented in the years ahead. The Committee found general agreement that the determination of this would contribute materially to an improvement in the management of an inventory of this size.

33. The Committee made the following recommendations:

- (1) that every effort be made by the executive to introduce at as early a date as possible an effective accounting change in the operations of the Department of National Defence whereby inventory quantities can be costed on acquisition and recorded in the quarterly or periodic inventory listings made by the Department;
- (2) that effective with the fiscal year 1964-65 the Department of National Defence issue a statement listing or summarizing all material declared surplus during the year showing, to the extent it can be determined, its original cost and the value obtained on disposal of this equipment by Crown Assets Disposal Corporation; also the value obtained for other surplus material, etc., declared without value to the Corporation, and that such a statement be placed in the Public Accounts of Canada;
- (3) that the preparation of a statement similar to the foregoing be made a requirement for each department and agency of the Government declaring material surplus for the purpose of disposing of such material during each fiscal year and that such statements likewise be placed in the Public Accounts of Canada effective with the fiscal year 1964-65.

(4) *Implemented*

Comment by the Auditor General: (1) No changes have been made in the accounting up to the present time.

(2) A Guide for Materiel Management which accompanied a Treasury Board Management Improvement Circular (T.B. 635423 of January 21, 1965) sets out the procedures and action to be taken to bring about "immediate implementation of the recommendation." However, the Treasury Board Circular states that "for administrative reasons the Board indicated that this report should be prepared in the form shown (in the Materiel Management Guide) for

the fiscal year 1965-66 rather than 1964-65 as recommended by the Public Accounts Committee." As a consequence no statement has as yet been produced.

(3) The Minister of Finance has advised the Chairman of the Committee on March 4, 1965 that preparations are under way to gather the information required to produce the statements. He added that the Comptroller of the Treasury has undertaken to include such statements in Volume II of the Public Accounts for 1965-66 prepared from the information supplied to him by the various departments.

(4) This recommendation dealt with sales and inspection procedures of Crown Assets Disposal Corporation. These have since been revised as suggested.

Eighth Report 1964—presented to the House on December 7, 1964

34. *Hospital Construction Grants.* The Committee stated it shared the opinion of the Deputy Minister of National Health and the Auditor General that, since it is inherent in the Hospital Construction Program that commitments be entered into for future years as well as the current year, the financing of the program be placed on a period-of-years basis with parliamentary control being exercised over the total commitments that may be entered into.

Comment by the Auditor General: Under date of February 3, 1965 I was advised by the Deputy Minister of Health that repeated consideration has been given to the Committee's recommendation in this regard. He added:

The suggestion that assistance to the provinces under the National Health Grants be placed on a period-of-years basis, particularly as related to the Hospital Construction Program, is being reviewed at the present time. In order to implement the recommendation of the Committee that Parliament should control monies under the Hospital Construction Grant on a period-of-years basis, it is believed that it would be necessary to give statutory authority to the National Health Grants arrangement. This question of statutory authority, as I indicated earlier in this letter, is presently under review and the opinion of the Committee has been brought to the attention of my Minister.

35. *Awards under the Pension Act.* The Committee made the following recommendations designed to clarify the Act:

- (a) that the extent of the powers delegated to the Commission under section 25 of the Act, "to grant a compassionate pension, allowance or supplementary award in any case that it considers to be specially meritorious" where the applicant is otherwise unqualified to receive such an award, be clarified by defining the term "specially meritorious;"
- (b) that the ambiguity under the Act whereby section 40 (2) appears to contemplate that a pension in respect of death of a member of the forces be limited to a single class of recipient whereas other sections of the Act provide that payments in respect of a death may be made concurrently to a widow (section 37), children (section 26) and parents (section 38), be eliminated;

- (c) that the inconsistency apparent under section 38 of the Pension Act where pensions awarded to widowed mothers under subsection (3) thereof, which requires that the parent must be incapacitated by mental or physical infirmity from earning a livelihood, are by reason of subsection (7) being continued in payment even though the widowed mothers have subsequently been able to undertake full-time employment, be removed;
- (d) that consideration be given to adding a section to the Pension Act similar to section 18 of the War Veterans Allowance Act to deal with cases where it appears to the Commission that there had been a deliberate disposal of property for the purpose of qualifying for a dependent parent award;
- (e) that, having regard for section 40 (1) of the Pension Act which provides that no person shall be awarded more than one pension in respect of death, the Commission reconsider the legality of its decision to permit an award to a dependent parent of a second pension in respect of the death of a child after the rights to a pension awarded in respect of the death of another child have been lost under the terms of section 45 (2) of the Act.

Comment by the Auditor General: This matter is referred to in paragraph 89 of my 1964 Report to the House and in paragraph 138 of my 1965 report to the House.

The Minister of Veterans Affairs advised the Chairman of the Committee on March 3, 1965 respecting each of the above recommendations as follows:

- (a) "This section was designed to make it possible for the Canadian Pension Commission to grant a pension to persons where, as mentioned in the Pension Act, the applicant is otherwise unqualified to receive such an award. Before such an award is granted, the Commission must decide that the claim is 'specially meritorious' as required by the legislation. This term 'specially meritorious' was deliberately left undefined in order that the Commission's discretionary authority would in no way be limited. It goes without saying that any definition of this term would unquestionably have the effect of limiting such discretionary authority. If this phrase were carefully defined, I am satisfied that sooner or later claims would arise which because of the definition the Commission would be unable to grant, even though it might be obvious to all concerned that the claim merited favourable consideration."
- (b) "In my view the only way in which this recommendation could be put into effect would be to delete sections 37, 26 and 38 completely from the legislation. It would also appear to be necessary to repeal section 39 as well as one or two other sections of the Pension Act before the terms of this recommendation could be met. Therefore, it is a question of deciding whether these provisions should be withdrawn, and this is a decision which can only be reached by Parliament. If the sections in question were withdrawn, it would mean that no pension would be paid to, or on behalf of children, and dependent parents, and brothers and sisters, would have no entitlement."

- (c) "Section 38(7) of the Pension Act was designed originally to encourage a widowed mother to seek employment, and hence the provision that pension will not be reduced on account of personal earnings. This places the widowed mother in a preferred class as compared to the dependent parent or parents, and again it is a question for Parliament to decide whether these widowed mothers should be given such preferential treatment.

It is worth noting that at the moment these widowed mothers are all well up in years because they must of necessity be the mothers of men who served in World War II. Barring future wars, therefore, these payments are not of a continuing nature."

- (d) "In deciding entitlement and the amount of the award granted, the Commission now takes into consideration all aspects of the claim. For instance, if the parent owns a home clear of encumbrance, the amount of pension paid would in most cases be less than if a parent were making substantial mortgage payments or renting. If the property is transferred to a son or other child, and the parent lives with the person to whom the property was transferred, a reduced amount is authorized. It is possible, nevertheless, that there may well be instances where the parent turns property over to a son or daughter for the sole purpose of qualifying for pension under section 38, and under the present terms of the legislation the Commission has no authority to reject such claims so long as the applicant is in a dependent condition, and so long as it is established that the son or daughter whose life was lost did contribute, or would in the opinion of the Commission have contributed, substantially to the support and maintenance of the parent. Again, the question of whether or not the Commission should be given definite authority to reject such claims is one which must be decided by Parliament."

- (e) "The Commission has on several occasions and, as directed by your Committee, will again study it thoroughly.

It should be pointed out, however, that if section 40(1) is to be interpreted as suggested by the Committee in its recommendation, it would not be possible to pay a widow's pension under the following circumstances: A widow loses her husband in World War I, and she is duly pensioned following his death. She later remarries, and the second husband is killed during World War II. The report of the Committee suggests that section 40(1) should be interpreted to mean that this widow would not be entitled to receive a pension for the loss of her second husband.

The Commission is of the opinion that a dependent parent who has lost two sons is entitled to very special consideration. It is obvious that the intent of section 38 is to provide the maintenance which the dead son or daughter would have provided had he or she lived. If there is evidence to indicate that the second son would have provided this maintenance had he lived, then it seems only just and

equitable that the parent should, in the event that he or she falls into a dependent condition, be equally entitled on account of both sons."

In September 1965 the Treasury Board approved the appointment of a committee of three persons not connected with the Department of Veterans Affairs or the Canadian Pension Commission, for a survey of the organization and work of the Canadian Pension Commission and for preparation of a report and recommendations thereon to the Minister of Veterans Affairs. Included in the field to be studied is the interpretation of such sections of the Pension Act which, in the judgment of this committee, should be considered.

36. *War Veterans Allowances.* The Committee made the following recommendations:

- (a) the Committee, after taking note of the increasing number of overpayments arising mainly from veterans making false or misleading statements, and of the fact that, although 80 such cases had been referred to the Board by the Auditor General in 1962 and 1963, in none of these had legal action been instituted, recommends that all cases of deliberate deception which come to notice be vigorously prosecuted;
- (b) that the Act should be amended to recognize mortgages receivable and agreements for sale as either personal property or an interest in real property. In the meantime, where it appears to the Board that the terms of a mortgage receivable or agreement for sale are unrealistic in relation to the life expectancy of the individual and the going market rates, the Board should deem the return from these assets to be at a reasonable monthly rate;
- (c) that in cases where the presence of a child is the reason for an award at married rates, the income of the child, except income specifically exempted under the Act, be taken into account in determining the amount of the award.

Comment by the Auditor General: This matter is referred to in paragraph 91 of my 1964 Report to the House and in paragraph 139 of my 1965 Report to the House.

The Minister of Veterans Affairs advised the Chairman of the Committee on March 3, 1965 respecting each of the above recommendations as follows:

- (a) "In considering this suggestion I have reviewed the problem as outlined in the evidence given by the Director of Legal Services in Appendix B of the Minutes of Proceedings and Evidence, No. 24, dated November 3, 1964, of the Committee.

The action taken by the Courts, where legal steps have been instigated has almost invariably resulted in suspended sentences based, no doubt, on the facts that the wrongdoer is a veteran, that he is nearly always elderly and that his health would not bear up under imprisonment. I have noted, too, that recoveries are made by

deductions from the allowance, by mortgages taken in the interests of the Crown and that judgments or executions are kept up to date in order to effect recovery of overpayments.

Nevertheless the comments of the Committee on taking a stiffer line on wrongdoers will receive full consideration during which all factors will be taken into account."

- (b) "This recommendation, dealing with the policy of not considering mortgages receivable from the sale of a residence as personal property or as marketable securities, has also received my consideration. I have noted from the evidence given before your Committee that by treating mortgage receivable payments from the sale of a residence, as income, it is more economical in the long run. If a recipient or applicant were forced to discount his mortgage receivable, he would in time be able to come on the allowance at the full rate. Also, where the mortgage receivable payments are not large, the widow of a recipient would suffer financial distress until such time as she could discount her mortgage to get funds for maintenance. The War Veterans Allowance Board does assess a reasonable return when the terms of the mortgage are unrealistic.

I am also impressed by the fact that the Regulations under the three benefit Acts of the Department of National Health and Welfare deal with mortgage receivable payments in a manner similar to that followed by the Board at the present time. I refer to the regulations under the Old Age Assistance Act, the Blind Persons Act and the Disabled Persons Act.

In the light of the above comments I do not consider that the present Board policy should be changed as it has proven to be, over the years, an eminently satisfactory approach."

- (c) "If this proposal were complied with it would, in the opinion of the Director of Legal Services and the Department of Justice, require an amendment to the War Veterans Allowance Act.

Cases where a dependent child is in receipt of assessable income are very rare. Bequests to children are almost invariably payable only after age 21, and such income as a child is permitted by law to earn constitutes very limited personal funds. Even though it were possible to ascertain these amounts, they would be exempt as casual earnings.

A liberal exemption in the amount of \$950 of the earnings of a dependent child, is exempted for a wage earner under the Income Tax Act. In the case of a war veterans allowance recipient, his income is limited to his ceiling.

Because of these reasons, I do not feel that any change should be made arising from this recommendation."

The Minister concluded his letter as follows:

In considering these three recommendations made by the Committee, I have given some weight to the fact that the War Veterans Allowance

Act is welfare legislation dealing with otherwise eligible veterans, widows and orphans, who find themselves in need of financial aid for maintenance.

Consequently, as welfare legislation, I believe that the Act should be administered with a broad and liberal interpretation in the interests of those recipients who depend upon it for their livelihood.

I am pleased to have this opportunity to provide the Committee with my comments on all these recommendations on matters that fall under my jurisdiction.

37. *Amendments to the Customs Act and the Excise Tax Act.* The Committee made the following recommendations:

(a) *Implemented*

(b) Sales of goods unclaimed at Customs—

that the practice of the Department in waiving all or part of whatever storage charges are applicable in order that at least the duties may be recovered be given statutory sanction by means of an appropriate amendment to section 23 of the Customs Act.

(c) *Implemented*

(d) Determination of 'sale price' for sales tax purposes

that an amendment be made to the Excise Tax Act designed to give statutory sanction to the existing scheme of valuation followed by the Department of National Revenue in authorizing manufacturers by regulation to compute the sales tax on less than the actual sale price.

Comment by the Auditor General: (a) This recommendation of the Committee had to do with release of goods under Customs Collector's permission. In this connection the Customs Act was amended by Chapter 16, 1965, and the amendment reads: "The Governor in Council may make regulations prescribing the terms and conditions upon which goods may be entered into Canada free of any requirement that the importer shall, at the time of entry, pay or cause to be so paid all duties on the goods so entered inwards".

(b) No amendment has yet been made to the Customs Act to authorize the deletion of warehouse charges when goods are sold at auction. Thus the practice of the Department in waiving such charges does not yet have statutory sanction.

(c) This recommendation relates to duties and taxes on surplus United States Government property sold in Canada. The Committee recommended that the Customs Act be amended to provide statutory authority for a composite rate to be applied to the proceeds of sales in Canada. This recommendation has been implemented by an amendment to the Customs Act by Chapter 16, 1965, which reads in part as follows: "Where goods, the property of the government of a country other than Canada, that were imported into Canada free of duty or at a rate lower than that to which they would otherwise be liable, are sold or

otherwise disposed of on behalf of the government of such country in accordance with an agreement between the governments of such country and Canada, such goods shall be charged with duties payable at such rate as may be determined by the Minister."

(d) On March 4, 1965 the Minister of Finance advised the Chairman of the Committee as follows:

It is believed that section 38(1) of the Excise Tax Act gives the Minister of National Revenue authority to determine the sale price for tax purposes in instances where it is necessary to do so. This section reads as follows:

38. (1). The Minister of Finance or the Minister of National Revenue, as the case may be, may make such regulations as he deems necessary or advisable for carrying out the provisions of this Act.

Suggestions have been made from time to time that more specific rules be provided in the Excise Tax Act under which the Minister of National Revenue would have authority to establish amounts different from the actual selling price to be the basis for sales tax. However, it has not been found possible to devise a satisfactory series of definitions and rules for this purpose. It is now considered advisable to wait for the report of the Royal Commission on Taxation before making a change of this kind in the Excise Tax law.

38. *General election expenditures.* The Committee noted the practice followed over the years of making accountable advances to election officers for the payment of office rental and various other expenses incurred in connection with an election. It noted that the Chief Electoral Officer in his report to the Speaker of the House of Commons on the 1962 general election had recommended that the Canada Elections Act be amended to provide for the payment of an accountable advance to an election officer, limited to an amount which might be necessary to defray such office and other incidental expenses as may be approved under the tariff of fees, costs, allowances and expenses.

The Committee recorded its support of this recommendation by the Chief Electoral Officer and expressed the hope that the amendment will be considered by Parliament at an early date.

Comment by the Auditor General: The Chief Electoral Officer recommended to the Speaker of the House of Commons following the 1962 general election that the Canada Elections Act be amended to provide for the payment of an accountable advance to an election officer, limited to an amount which might be necessary to defray such office and other incidental expenses as may be approved under the tariff of fees, costs, allowances and expenses. However, the Act has not yet been amended. Accountable advances have continued to be made to election officers as requested by the Chief Electoral Officer. These advances are being recovered as the several election officers submit their accounts to the Treasury.

39. *Accounts not examined by the Auditor General.* The Committee noted that although this officer of Parliament is the auditor of the majority of the Crown corporations, it has not been the practice of successive governments to appoint the Auditor General the auditor of seven of the Crown corporations and other public instrumentalities and that therefore their accounts have not been examined and reported upon by him to the House. The Committee expressed its belief that it would be in the best interests of Parliament in its control of public funds were the Auditor General empowered to audit the accounts of all of the Crown corporations, agencies and public instrumentalities owned or controlled by the Crown, wherever they may be, and to report thereon to the House.

The Committee therefore recommended:

- (a) that the Auditor General be appointed either the sole auditor or a joint auditor pursuant to subsection (2) of section 77 of the Financial Administration Act, of each Crown corporation, agency and other public instrumentality in respect of which other auditors have been or may be appointed;
- (b) that in cases where such other auditors are appointed, they function as joint auditors with the Auditor General, and that such appointments be made by the government acting on the advice of the Auditor General.

Comment by the Auditor General: There has been no action taken with respect to this recommendation.

On March 4, 1965 the Minister of Finance advised the Chairman of the Committee as follows:

I have noted the recommendations contained in sections 12 and 13 of the Eighth Report of the Standing Committee on Public Accounts [i.e., items 39 and 40 herein] but do not propose to initiate any action on these at the present time.

40. *Audit of the Office of the Auditor General.* The Committee noted that pursuant to the provisions of section 75 of the Financial Administration Act, an officer of the public service nominated by the Treasury Board examines and certifies to the House of Commons in accordance with the outcome of his examinations the receipts and disbursements of the Office of the Auditor General.

The Committee recommended that this section of the Financial Administration Act be amended to provide that the receipts and disbursements of the Office of the Auditor General be examined by a qualified person nominated by Parliament through its Standing Committee on Public Accounts, and that such person should report thereon to the House of Commons.

Comment by the Auditor General: There has been no action taken with respect to this recommendation.

On March 4, 1965 the Minister of Finance advised the Chairman of the Committee as follows:

I have noted the recommendations contained in sections 12 and 13 of the Eighth Report of the Standing Committee on Public Accounts (i.e., items 39 and 40 herein) but do not propose to initiate any action on these at the present time.

* * *

COMMITTEE RECOMMENDATIONS ON WHICH
ACTION HAS BEEN TAKEN

Fourth Report 1964

- Advertising costs
- Educational leave costs
- Payment of maintenance expenses of Civil Service Recreational Association Centre

Fifth Report 1964—Canadian Broadcasting Corporation

- Annual report
- Statement of Operations
- Size of operating and capital requirements
- Authority of Comptroller over Regional Accountants

Sixth Report 1964

- Lease termination payments
- Superannuation Accounts

Eighth Report 1964

- Employment of part-time doctors by Department of Veterans Affairs

In addition, as is indicated under items 6, 28, 33 and 37 of this follow-up report, there was partial implementation of the Committee's recommendations respecting the form and content of the Estimates (Fourth Report 1964), accounts receivable (Sixth Report 1964), surplus assets disposal (Seventh Report 1964) and amendments to the Customs Act and the Excise tax Act (Eighth Report 1964).

Ottawa, February 28, 1966.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

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and/or a translation into English of the French.

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LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

TUESDAY, APRIL 26, 1966

Public Accounts, Volumes I, II and III (1964 and 1965)
Report of the Auditor General to the House of Commons (1964)

WITNESS:

Mr. A. M. Henderson, Auditor General of Canada.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and Messrs.

Baldwin,	Leblanc (<i>Laurier</i>),	Tardif,
Ballard,	McLean (<i>Charlotte</i>),	Thomas (<i>Maisonneuve-</i>
Bigg,	Morison,	<i>Rosemont</i>),
Cameron (<i>High Park</i>),	Muir (<i>Lisgar</i>),	Thomas (<i>Middlesex</i>
Dionne,	Noble,	<i>West</i>),
Flemming,	Prittie,	Tremblay,
Forbes,	Racine,	Tucker,
Gendron,	Stafford,	Winch—(24).

J. H. Bennett,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, April 21, 1966.

The Standing Committee on Public Accounts having been duly called to meet at 9:30 o'clock a.m., the following members were present: Messrs. Baldwin, Ballard, Cameron (*High Park*), Dionne, Forbes, Hales, Leblanc (*Laurier*), Lefebvre, Thomas (*Maisonneuve-Rosemont*), Winch (10).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; and Messrs. Long, Stokes and Sayers of the Auditor General's office.

At 9:55 a.m. there being no quorum, the Chairman postponed the meeting to the call of the Chair.

M. Slack,
Clerk of the Committee.

TUESDAY, April 26, 1966.
(3)

The Standing Committee on Public Accounts met this day at 9:45 a.m. The Chairman, Mr. A. D. Hales presided.

Members present: Messrs. Bigg, Cameron (*High Park*), Flemming, Hales, Leblanc (*Laurier*), Lefebvre, Morison, McLean (*Charlotte*), Muir (*Lisgar*), Noble, Stafford, Thomas (*Maisonneuve-Rosemont*), Thomas (*Middlesex West*), Tucker, Winch (15).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; and Messrs. Long, Stokes, Sayers and Laroche of the Auditor General's office.

The Chairman spoke to the Committee on the importance of achieving a quorum.

On motion of Mr. Winch, seconded by Mr. McLean (*Charlotte*),

Resolved,—That the Committee seek to have the quorum reduced from 13 to 10 members, and the Committee authorized to sit while the House is sitting.

A discussion arising thereon, Mr. Winch's motion (above) was withdrawn, by unanimous consent.

On motion of Mr. Winch, seconded by Mr. Tucker,

Resolved,—That the Committee request that its quorum be reduced from 13 to 10 members.

On motion of Mr. Winch, seconded by Mr. McLean (*Charlotte*),

Resolved,—That the Committee seek authority to sit while the House is sitting.

Respecting the appearance of departmental and Crown Corporation officials before the Committee, on motion of Mr. Leblanc (*Laurier*), seconded by Mr. Lefebvre,

Resolved,—That officials of the St. Lawrence Seaway Authority and the Canada Council be invited to appear before the Committee.

Mr. Henderson, The Auditor General asked permission to be absent from the Committee to attend a convention of Auditors General in Europe.

On motion of Mr. Winch, seconded by Mr. Tucker,

Resolved,—That Mr. Henderson be excused by the Committee to attend a convention in Europe May 9-18, 1966.

Mr. Leblanc received permission to read into the evidence a statement respecting the authority of the Auditor General (taken from the Glassco Report, Volume 1, page 67, French Edition).

The Chairman reviewed the line of questioning to be followed in the follow-up report, and the Committee commenced consideration of the Auditor General's report for the year ending March 31, 1964.

Questioning of Mr. Henderson continuing, the Committee adjourned to Thursday, April 28, 1966.

J. H. Bennett,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, April 26, 1966.

• (9:45 a.m.)

The CHAIRMAN: Gentlemen, we have a quorum. At the last meeting we were unable to secure a quorum. I suggested at that meeting that I write a letter to those that were absent, which I did. That letter stated the large amount of work that we have to do before this very important Committee. I realize also that there are times when it is difficult for people to be present. They have very legitimate reasons for being absent. I also realize that we have a terrific amount of work that the House has asked us to do. If there are people on the Committee who are not particularly interested in public accounts, I would suggest that they get in touch with their whips and ask them to name somebody else in their place. But I am sure that everybody that is here and on this Committee is sincerely interested in the Public Accounts Committee, because it is a very interesting Committee; you will learn more about the operation of government through this Committee than any other way that I know of.

I would like the Committee to give consideration to this thought, and I open the meeting for discussion on it.

Would you think it advisable that we should reduce our quorum to ten, or ask permission to reduce our quorum to ten? Do you think we should ask permission to sit while the House is in session? We would ask for such permission because of the tremendous backlog of work that is in front of us, and also that we have occasion to call witnesses. In many cases these witnesses are very busy people. We have to carry on with the investigation and make it continuous. These are things to which I would like you to give consideration.

I also think that consideration should be given to the possibility of a member of a Committee being away on a tour, or representing the government on an international meeting of some type, which will cause him to be away for four or five weeks. I also know and I am sorry to report this that Mr. Tremblay, one of our members, is sick in the hospital and will be there for three or four weeks, and then he will have a period of recuperating which means he might be away for six or eight weeks. Would it not be possible for these people to ask their whips to nominate a successor in their place until their return? These are things, I think, to which the Committee should give consideration in order that we may get on with this big job.

And another thing, we have the Auditor General and his staff here. I feel embarrassed when we have to wait until a quarter to ten, or wait a half

an hour, or whatever the case may be, in order to get a quorum so that we can proceed. These people are busy people, and we must not hold them up like this. I now throw the meeting open for—

Mr. STAFFORD: We are one short on the Broadcasting Committee. I am also on that Committee; that is one of the difficulties, I find.

The CHAIRMAN: Now, this brings up another matter. This whole matter of Committee meetings must be reviewed so that these things will not happen. It is not fair to ask you to be at two places at once; it is humanly impossible.

Mr. STAFFORD: Would we have a quorum here if I left?

The CHAIRMAN: Would we have a quorum if Mr. Stafford leaves? Well, we will excuse you, sir, and we hope we will have the honour of your presence next time and they will be without you.

Mr. WINCH: I had the honour of being a member of a similar Committee for some twenty years when I was in the British Columbia legislature. I have had the privilege of being a member of this Committee ever since it was established here. To me the Public Accounts Committee is one of the most important committees, as important as all are in the House of Commons.

In the thirteen years, sir, I have been in Ottawa, I have always opposed a reduction of quorums; I have always opposed sitting while the House is in session. But the situation that we have now, with more committees, and our inability to obtain a quorum leads me to having to accept the responsibility—and I am the one that should accept it, in the view of what I have just told you—of agreeing to the situation which you have outlined, because it is, without doubt, of the utmost importance that this Committee function even with a reduced membership.

Therefore, sir, having outlined my objections over the years to a small quorum, my objections over the years to sitting while the House is in session—because you cannot be a member in the House and in committee—it is with a great deal of regret, but because of an understanding which I had in this Committee, I will move, if I can get a seconder, that our quorum shall be reduced to ten and that we be allowed to sit while the House is in session. If I can get a seconder to that I will move it, but I want to follow up by saying that because my views on this are so well known, I would like to make the same statement in the House of Commons, as I am making here, as the reason why I am prepared to move this motion.

Mr. McLEAN (*Charlotte*): I second it. Your remarks make common sense.

The CHAIRMAN: Moved by Mr. Winch, and seconded by Mr. McLean. Now the motion is open for discussion. Mr. Leblanc?

Mr. LEBLANC (*Laurier*): I think we will have some difficulty in getting unanimous consent in the House to sit while the House is sitting, because such a motion was presented before by other committees and they received special permission for a few days, but I do not believe that we will get permission to sit all the time while the House is sitting.

Mr. WINCH: If you cannot get that at the time that the Chairman makes the report, then it goes on the Order Paper and, on two days notice, a vote can be taken.

Mr. LEFEBVRE: I think the motion is a good one, but we will not get permanent permission to sit while the House is sitting. We might as well have an amendment to that motion, that we ask for three days, or four days, or a certain time limit, because otherwise we will not get permission, there is no use in kidding ourselves about this.

The CHAIRMAN: Just a minute, Mr. Muir.

Mr. MUIR (*Lisgar*): The thing, Mr. Chairman, is that we could probably have a better co-ordination in the meetings. Two of us here will be marked absent at another committee meeting this morning, which no member likes to have done. If there could be some co-ordination among the chairman on when the committees would meet, it might help to solve one of our problems. I would go along with presenting the motion as is, even if the House does turn it down, and then we could come back and ask for three or four days, or whatever it might be.

The CHAIRMAN: I might just mention that Mr. Grant Deachman is co-ordinator of committees, and he is doing the best he can to co-ordinate them, but there are too many committees, I guess, for him to handle it the way it should be handled.

Mr. TUCKER: Mr. Chairman, I would like to suggest that Mr. Winch's motion be split, to make two motions: One, reduce the quorum to ten; then take a vote on that, and two, we could take a vote on the other one. I think we must keep them apart.

The CHAIRMAN: We will have a discussion, and then come back to changing it or amending it.

Would anyone else like to speak before Mr. Winch rewords his motion? Mr. Winch, would you like to reword it?

Mr. WINCH: If I have the consent of my seconder, I will withdraw the motion.

The CHAIRMAN: Is it agreed that it be withdrawn and reworded?

Mr. WINCH: I would like to move that we request the House of Commons for permission to reduce our quorum from thirteen to ten.

Mr. TUCKER: I second the motion.

Motion agreed to.

Mr. WINCH: I would like to move, if I can have a seconder, that we report and give notice of motion to sit while the House is in session. It does not require unanimous consent. A notice of motion can be discussed after 48 hours. Let us put the whole story before the House of Commons.

Mr. LEFEBVRE: Will you be asking for a certain time when we may sit while the House is in session?

Mr. WINCH: Mr. Chairman, I do not want to take up too much time, but I have been on this for years, provincial and federal. For almost 33 years I have been on Public Accounts Committees. I know the House of Commons. I know that we cannot ask for a period of three to four weeks. If this House sits until one week before December, we will still be meeting if we are going to handle all the accounts and recommendations. Therefore, it is nonsensical—I am sorry to put it that way—it is nonsensical to ask for a period of three or four weeks when we can sit. My suggestion is that the Chairman make two reports: In the first report, he asks for an adjustment of quorum, and unanimous consent. But, in view of your remarks and statements made in the House, he should then make a further report which is separate from the first one and does not require unanimous consent because it is a notice of motion and is dealt with—I think it is in two days, if I am correct on that.

The CHAIRMAN: Forty-eight hours.

Mr. WINCH: Then it comes up for a decision in the House.

The CHAIRMAN: And it is debatable.

Mr. WINCH: It is debatable.

Mr. McLEAN (*Charlotte*): I second the motion.

Motion agreed to.

The CHAIRMAN: Now we are on the second one which is that we be allowed to sit while the House is in session. It has been moved and seconded. It is open for discussion.

Mr. MORISON: Mr. Chairman, I feel that this is just another extension of wasting time. It seems to me since I have been here that every time we give ourselves more time we have to reconsider it. I would much sooner see this Committee reduced to ten and then hope that you would get ten eager men who want to work. We work as best we can in the time allotted to us, when the House is not sitting, and then if we find that we cannot get the work done, then go back to the House and maybe ask for time to sit during sitting hours of the House. But I think just to go back and bring in the motion again is just taking up more time in the House, and wasting time in committee.

Mr. McLEAN (*Charlotte*): We are not going to sit in Committee if we do not have to.

Mr. WINCH: Only if we have to sit while the House is sitting on account of our business or our witnesses. Then we have the right; and sitting while the House is in session will require a motion of the Committee, but only if we find that we are not making any progress when the House is not sitting. If we have witnesses that we have called in who cannot be here for another week or two weeks or a month, then we will decide, because we have the authority, to sit on that day while the House is sitting. It is not automatic that we are going to sit. I thought that was understood, Mr. Chairman.

Mr. CAMERON (*High Park*): What is the possibility of the committees being constituted as they are, but not having the members spread over several

committees, say three or four, because some members of this Committee are members of at least two other committees. How can you do your homework, how can you be prepared to come and carry on your functions on an important Committee like this, in the face of that situation? That is one of the things that I think we will have to consider. And another thing that I feel should be taken up in its proper place would be the habit of a good many members, when something important comes up before the Public Accounts Committee, getting switched from one committee over to another committee, and as soon as that matter is disposed of, then they get switched back to another committee.

I think there should be more permanence in the membership of the committee so you can get more continuity in your work. That is another observation I would like to make.

The CHAIRMAN: Would you like to add to that, Mr. Winch?

Mr. WINCH: I certainly understand what you have in mind, but that is no longer required under the rules which are now in effect. Any member of the House of Commons who is interested in a specific matter coming before any Committee has the right now to come to that Committee and take part in discussions of that particular nature. The only power which they do not have is the vote. But they have the power now to appear before any Committee on a particular subject being considered by the Committee.

Mr. CAMERON (*High Park*): That is true, Mr. Winch, and there certainly could be no objection to that, but what I am saying still stands. They become a member of the Committee so that they can vote on it, and then as soon as that matter is over they move to some other committee. I would like to see more permanency in the committees and probably the members not on so many committees.

● (10:00 a.m.)

The CHAIRMAN: Well, Mr. Cameron, this is the environment and the framework in which we find ourselves having to operate at the present time, and we will see if this environment or framework can be adjusted a bit, following your suggestion. Following what Mr. Winch has said, on May 10th, for instance, we would like to have the St. Lawrence Seaway Corporation before our Committee, and then on the 17th of May the Canada Council.

Now these are two occasions when we will start in the morning, but we may have to carry on in the afternoon, and perhaps continue on in the evening in order to finish those witnesses, you see? So it would be nice to have that provision where we could meet while the House is in session, if necessary.

If there is no further discussion, we will carry on with the witness.

Mr. LEBLANC (*Laurier*): For those two special days, if you ask permission on the 9th to sit on the 10th, you will get that permission,—there is no doubt about that—from the House. But if you ask for a *blanc seing*, you will not get it, you can be sure of that. That is why I am saying that any time you ask for something special, as for the 10th, when you will have special witnesses for the entire day, then on that night you can ask for permission from the

House to sit for the entire day of the 10th. Then you will get it. The same thing applies to the 17th.

The CHAIRMAN: Well, the way the matter stands now, if there is a resolution with 48 hours' notice it becomes debatable and the House is master of its own rules, and it will decide what we should do.

Mr. WINCH: But, suppose we do not happen to have a meeting on the 9th. It requires a motion of this Committee to ask for permission to sit in the afternoons. If we can get permission, after notice of motion, then I would presume, Mr. Chairman, that the authority will be in the hands of your steering committee to ask for a sitting, because of the circumstances. That is the reason we have a steering committee.

The CHAIRMAN: Gentlemen, I think we have had a pretty good discussion on it, and we will proceed.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, will the clerk read the proposed resolution.

The CHAIRMAN: The Clerk will read the resolution.

The CLERK OF THE COMMITTEE: Moved by Mr. Winch that a notice of motion to sit while the House is sitting, be presented to the House.

Mr. THOMAS (*Middlesex West*): I feel that that is complicating the matter. We should simply ask for permission to sit while the House is sitting, and leave it simple, and leave it general. We have no right to assume what the House is going to do about it. The House can refuse us this permission or it can grant us this permission. I say, leave it to the House, and put the motion in simpler terms, no suggestion of a notice of motion, or anything else.

Mr. WINCH: I am sorry, but—

Mr. THOMAS (*Middlesex West*): The House can grant the committee permission to meet at any time, but we have the right to if we so desire it.

The CHAIRMAN: Now, wait, before we get confused here. Let us do this step by step. Mr. Winch moved, Mr. Tucker seconded the first motion, I believe, that the Committee ask for permission to reduce its quorum to ten. Secondly, moved by Mr. Winch and seconded by Mr. McLean, that the Committee, by means of a written resolution on the Order Paper ask—

Mr. WINCH: This is a separate report made by yourself. You are not asking for a decision on that.

The CHAIRMAN: This is where there is confusion. If I rise in the House and do it orally, then it requires unanimous consent of the House.

Mr. WINCH: For adoption that day. But if you make a separate report saying, "I am not asking for a vote today," then 48 hours after, you then get up and move acceptance of the House.

The CHAIRMAN: I am following you. Do it orally first, in the hope that we get unanimous consent of the House.

Mr. THOMAS (*Middlesex West*): And then when the report is made you can say, "By unanimous consent of the House, I propose to move later this day." Now, if when you stand up to make the motion, unanimous consent is not forthcoming, nothing is lost. The report is still before the House and—

Mr. WINCH: Forty-eight hours later—

Mr. THOMAS (*Middlesex West*): —forty-eight hours later you can make the motion without unanimous consent.

The CHAIRMAN: All right, that is clear now. All those in favour?

Mr. THOMAS (*Middlesex West*): Are we sure that we have the wording correct that we are voting on?

The CLERK OF THE COMMITTEE: Moved by Mr. Winch, seconded by Mr. McLean, that a resolution be made to the House asking for a notice of motion to sit while the House is sitting, if necessary.

Mr. TUCKER: But what happens if this motion were rejected?

The CHAIRMAN: This will be re-worded and re-drafted.

Mr. TUCKER: That is not your suggestion, is it, Mr. Thomas?

Mr. THOMAS (*Middlesex West*): Well, if it is reworded to suit the requirements.

Mr. CAMERON (*High Park*): What Mr. Winch has in mind is that first of all you report asking for leave to reduce the quorum, and ask for unanimous consent, and then if that passes, you present the second report and you can ask for unanimous consent if you want to, or you can say that you are not going to ask that it be concurred in, and then, forty-eight hours later it comes on debate.

The CHAIRMAN: The mechanics will be worked out.

Mr. CAMERON (*High Park*): I think that is the way the motion should be.

The CHAIRMAN: I think that is understood by everybody? All in favour? Motion agreed to.

Now, our meetings will be lined up for April 28, May 3, 5, 10, 12, and 17. That is every Tuesday and Thursday until the middle of May. Now it is the wish of the Committee that we have the St. Lawrence Seaway on May 10 and that the Canada Council on May 17. I would like to have a mover and seconder to have these people appear before this Committee.

Mr. LEBLANC (*Laurier*): I so move.

Mr. McLEAN (*Charlotte*): I second the motion.

Motion agreed to.

The CHAIRMAN: Now, on May 10 to 17 our Auditor General, Mr. Henderson, will be away. I would like to read to you a letter from Mr. Henderson stating

why he would like to have permission from this Committee to be absent during that period. It reads:

I have a long standing date to attend important meetings in Vienna and London during the period May 9 to May 17. As this will necessitate my absence from Ottawa, may I ask the members of the Public Accounts Committee if I could be excused from attending its meetings during this time. Mr. George Long, C.A., the Assistant Auditor General, would take my place.

I should explain that a new world body was founded recently by the Auditors General of over seventy countries which goes by the title of Supreme Audit Institutions. Last summer an International Secretariat was formed and financed by the Austrian Government and a Board of Governors established to guide its work, which is composed of representatives of twelve countries. I have accepted an invitation on behalf of Canada to serve as a Governor on this board representing not only Canada but also the Auditors General of all of the British Commonwealth countries. The board is also anxious for me to attend because of my position as Chariman on the Panel of External Auditors of the United Nations and specialized agencies.

Last fall I advised the Chairman of the Board of Governors that I would make every effort to attend its first meeting this May but only providing my absence at that time did not conflict with the work of the standing committee on Public Accounts of the Parliament of Canada whose approval I would wish to have before absenting myself from Ottawa.

I should appreciate receiving your advice and that of the members so that appropriate arrangements may be made for the convenience of all concerned.

Gentlemen, this is the letter from Mr. Henderson. It is self-explanatory, and I might say I thing a great honour to Canada and to himself.

Mr. WINCH: If I could have a seconder, I would like to move that this Committee appreciates the great honour which has been extended to the Auditor General of Canada: that he be excused from attendance at the Public Accounts Committee from May 9 to May 17, and that this Committee wishes him all success at this most important meeting.

Mr. TUCKER: I second the motion.

Motion agreed to.

Mr. Henderson, we shall excuse you for those meetings, and Mr. Long, we will look forward to having you with us.

Mr. HENDERSON: Thank you very much, sir. It is a meeting that actually the board had proposed to hold earlier than this, namely, last fall, but they postponed it because I was unable to go last fall. and then they proposed it this spring after your Committee had been formed.

However, it seemed to us that perhaps you might care to have these crown agencies before you whose officers have a good deal to say working from our long form reports. Perhaps I should mention this, Mr. Chairman?

As you know, the Audit Office issues long form reports on those crown agencies, and it is proposed to make copies of these available in both languages a week or so in advance in order that you may have an opportunity to study their internal financial and accounting workings before you come to the meeting to hear the witnesses. In that way, you will be able to put questions more effectively. We would follow the same procedure as was followed in 1964, when the C.B.C. appeared before this Committee, as I think several of the hon. members will recall.

The CHAIRMAN: Now, gentlemen, we will proceed with our work.

Mr. LEBLANC (*Laurier*): If you remember, at the first meeting that we had this year of the Public Accounts Committee, there was a discussion regarding the authority of the Auditor General. Now, I would like to put on record in French, if possible, what is put forth in the Glassco Report regarding the definitions of the Auditor General. I think it would be good to have this on the record. The Glassco Report defines the Auditor General's work as follows, in French, on page 67 in Volume 1:

(Translation)

The other external safeguard rests with the Auditor General, in his responsibility for judging the efficacy of government accounting systems, internal control and audit procedures and other techniques of financial management, and ensuring that public funds are adequately protected against misuse and are legally spent. This function and his duty of disclosing to Parliament and the public any evidence of illegality, irresponsibility and dishonesty in the handling of money, serve as powerful deterrents.

(English)

I think that is very clear on what the Auditor General should do in Canada.

The CHAIRMAN: As it refers to the Auditor General and his work, I think it is only right that we should ask the Auditor General for any comments at this time, if he so wishes.

Mr. HENDERSON: Mr. Chairman, I am indebted to Mr. Leblanc for quoting that reference from the Glassco Report, it is a reference which, I might say, commended itself to my officers and to me as a very forward-looking one. It is indeed in accordance with the approach that we seek to bring to these matters.

If anyone has any questions under this heading at any time, I should be pleased to answer them.

● (10:15 a.m.)

I doubt that discussion of this would give you any exact insight into matters which are really in the final analysis left to the Auditor General of the day.

It is very helpful though, sir, to have this reference placed on the record of this Committee's meeting, and I appreciate your doing so, Mr. Leblanc.

Mr. WINCH: One question, Mr. Henderson: Since you became the Auditor General, have you not, in principle, followed, as your responsibility, the quotation we have just been given from the Glassco Commission?

Mr. HENDERSON: Yes, I have sought to do so, Mr. Winch, but I must at all times, also, as my first responsibility, have regard to the law and the definition of my responsibilities as contained in the Financial Administration Act.

Mr. WINCH: This brings me then to the next question, which I hope is what you intend to do. Do you feel that there is any requirement in the Act which governs your responsibility to enlarge upon, or to clarify your authority? Is that, sir, what you have in mind?

The CHAIRMAN: Mr. Leblanc, I think, was the—

Mr. LEBLANC (*Laurier*): No, I did not have anything like that in mind. I just wanted to put on the record exactly the definition given by the Glassco Report which enlarges the definition that is in the Financial Act. I think it is a good thing for us who are going to be sitting on this Committee to know exactly what is the responsibility of the Auditor General. Some of us are new around here, and do not know exactly what his position should be and, if I remember well, at the first meeting, there were questions just to clarify the matter. I think that this quotation clarifies it entirely.

Mr. WINCH: Do you think there would be, Mr. Henderson, any need for any enlargement of clarification in the Act of your responsibilities?

Mr. HENDERSON: No, I do not, Mr. Winch. I think the Act as it is presently written is phrased in a rather general manner, but at the same time it does leave the Auditor General free to bring to the notice of the House of Commons those cases, those things, those matters, which in his view should be brought to the attention of the House. Behind that lies a great tradition reaching back into Westminster, and which has been dealt with by Durell and other parliamentary writers who from time to time are quoted as these matters are studied. Naturally, in the interpretation of this, you would expect that different Auditors General will bring different approaches to their interpretation. One I have sought to bring is the one Mr. Leblanc has quoted to you from the Royal Commission on Government Organization. I might have perhaps phrased it rather more differently, but generally speaking that is the approach to which I subscribe. Does that answer your question?

Mr. LEBLANC (*Laurier*): No further discussion on this?

Mr. LEFEBVRE: I just wanted to ask Mr. Henderson one more question on this. Do you feel that your position in Canada is similar to, say, your counterpart in the United States or in other Commonwealth countries? Do you have equal powers that they have, or do you feel that you need more, or are they equal?

Mr. HENDERSON: As far as the British Commonwealth is concerned, because the various countries making up the Commonwealth have substantially the same constitution, the responsibilities and duties of the Auditors General stem from the same basic legislation, and therefore we are very similar. Several of them, notably the Comptroller and Auditor General in the United Kingdom, has some administrative functions to perform which I do not. On the other hand, the work of the Auditors General of Australia and of New Zealand, and some of the other countries, is more akin to mine. In the case of the United States, the Comptroller General has approximately the same freedom of action; he has certainly the same independence. But he also is charged with a number of administrative responsibilities, particularly in the field of arbitration. But then, the constitutional position in the United States is different from ours.

In answer to your second question, there are a few things which, I believe, our present legislation could define more accurately, having to do with the duties and responsibilities of the Auditor General in Canada, and this is a subject of study at the present time, and when that study is completed, Mr. Chairman, I believe that it might be of interest to the Committee—it would certainly be helpful to me—if I might be permitted to outline them to you. But there is nothing immediate or urgent about it, and I see no reason to take up your time now on this.

The CHAIRMAN: Thank you. Now, gentlemen, at the last meeting we very hurriedly went over the follow-up report of the Auditor General. I would like to make a suggestion to you; it is rather long, but we have to clear this matter up and we will use the first part of this meeting to do it before we go into the 1964 report.

It will be recalled that this follow-up report, which was reviewed rather hastily, indicated that no action had been taken up to February 28, 1966, on 40 of the 50 recommendations made by this Committee and outstanding from its past reports. Of the 40 items remaining in this category, members will recall that action had been taken on two of them which we may regard as satisfactory, that two questions are as follows:

If you will turn to page 210 in your 1965 report, you will be able to follow this more closely.

Item No. 10, and Item No. 12 are the two that have been acted upon by the government. Item 10 deals with the cost of gasoline as used in departmental vehicles in Ottawa, and Item 12, the Board of Grain Commissioners increased their fees. Those two items have been acted upon. This leaves 38 items on which no action has been taken. With respect to these 38, what should we do? I would suggest, for your consideration, on page 213, item Number 23, which deals with advances to the exchange fund account, be allowed to stand for the present, without further comment from this Committee, as the reason is that the holdings of the Exchange Fund have not dropped in value, and there was a surplus of over \$31 million at December 31, 1964.

I suggest that the following five items in the follow-up report be stood aside, pending a possible appearance of witnesses in connection with other matters which are their responsibility, and which will be coming up in the

1964 and 1965 reports of the Auditor General. At that time, they can be questioned on the five items which are as follows:

Page 212, Items 16, 17, 19, 22 and 34; those are matters, as you see, listed there, which we will discuss when we have witnesses before us.

Nine of the items in the follow-up report would appear to represent committee recommendations which should be reiterated with the request for early action in the first progress report of this Committee to the House. The nine items falling into this category are as follows: Page 210, Items Nos 9, 11—I had better read the title—No. 9, remission of Sales Tax on Oleomargarine. I shall not take time to read the whole paragraph, the heading, I think, is sufficient. Item No. 11, the Unemployment Insurance Fund and Its Administration. Those who have been on the Committee before will recall our studies on these matters and the reports that were made to the House. We are suggesting that we should bring them up in our next report to the House with a request for early action. Item No. 25, Pension Increased by Payment of Two Salaries; it is all explained there. Item No. 26, Reciprocal Transfer Agreements for Superannuation Benefits; item No. 30, the Canada Council; we will have an opportunity to discuss that again with the officials when they are here. Item No. 31, Surplus Assets Disposal. Item No. 32, Surplus Assets Disposal. Item No. 33, Surplus Assets Disposal and Item No. 38, General Election Expenditures.

If this disposition commends itself to the members of this Committee, there will be 23 items remaining. The subject matter of each of these is going to come up for discussion as we move through the 1964 and 1965 reports of the Auditor General. Will it, therefore, be satisfactory to the members if we see to it that each of these follow-up report items is brought forward individually into the discussion which takes place at the time on a related report paragraph so that members will have all of the facts before them in deciding what further action is to be taken?

These 23 items are as follows: Page 208: Item 1, Second Class Mail; Item 2, Departmental Operating Activities; Item 3, same page, Internal Financial Control; Item 4, Unemployment Assistance; Item 5, Findings of the Royal Commission on Government Organization. On page 209, we find Item 6, the Form and Content of the Estimates; on page 310, Item 7, Living Allowances to Federally-Appointed Judges; Item 8, Governor General's Special Warrants. On page 211, Item 13, Office of the Auditor General; on page 212, Item 14, Canadian Broadcasting Corporation, Report of the Royal Commission on Government Organization. On the same page, Item 15, National Defence Administrative Regulations and Practices; Item 18, Educational Costs Incurred by the Department of National Defence; Item 20, Pension Awards Effective at Early Age; Item 21, Discretionary Awards of Service Pensions. On page 213, Item 24, Errors in Public Service Superannuation Account Pension and Contribution Calculations; Item 27, Interest Charges on Loans to the National Capital Commission. On page 214, Item 28, Accounts Receivable. Every one of these is very important. On page 214, Item 29, Indirect Compensation to Chartered Banks; Item 35, Awards Under the Pension Act; Item 36, War Veterans Allowances; Item 37, Amendments to the Customs Act and the Excise Tax Act; Item 39, Accounts not examined by the Auditor General and Item No. 40, Audit of the Office of the Auditor General.

● (10:30 a.m.)

So those are the 23 items that will be appearing in the 1964, and again in the 1965, Auditor General's report. That is a breakdown of the follow-up report into groups of how they have been handled.

Now, if that meets with the approval of the Committee, I think we could dispose of the follow-up report and immediately go into the 1964 report of the Auditor General. Are there any comments?

Mr. WINCH: Just one. Yes, I think you have done an excellent job, Mr. Chairman. I want to express my personal appreciation of the great job you have done. There is just one point: You mention in these 23, Item No. 37 on page 216.

I expressed to you at our last meeting a particular interest in illegality of illegality on a matter raised at our meetings last year which comes under what is (d) in Item No. 37 on page 216. May I ask whether or not this may have priority, or whether it may be months before we get down to dealing with this matter?

Mr. HENDERSON: May I answer that, Mr. Chairman?

The CHAIRMAN: Yes, Mr. Henderson.

Mr. HENDERSON: As we move into the 1964 Report, followed by the 1965 Report, there are a number of paragraphs on this subject. We deal with this one in the 1964 and 1965 Reports and also, the members, it seems to us, will wish to be updated on certain related changes not in respect of this one, but in respect of other recommendations made about the Customs Act and the Excise Tax Act.

Mr. WINCH: Mr. Henderson, in (d), Determination of sale price for sales tax purposes—

Mr. HENDERSON: That is right. That will come up in the 1964 Report. There is a paragraph on it, so that it seemed more sensible to discuss it under that heading when we hit that paragraph in order that you might be right up to date.

Paragraph 90 in the 1965 Report also deals with that subject, so that way you will have all of the facts including the follow-up ones before you as you consider these paragraphs. We shall see that they are brought forward.

The CHAIRMAN: I might say at that time, or at any other time, any member of this Committee is at liberty to ask permission to have any of the officials appear before the Committee as witnesses to help answer the questions as they come up.

Mr. WINCH: Just once, sir, I want to find out just why, when it was pointed out by the Auditor General and by this Committee that illegal action has been taken, illegal action was being taken on a legal action. I have just returned from Vancouver, and I have three more companies that have got rebates, illegal on an illegal action, so I want to see that one followed up.

The CHAIRMAN: Maybe we should give it priority while it is fresh in your mind, Mr. Winch. We will endeavour to co-operate, sir.

Mr. HENDERSON: We have pretty complete notes on these points and there are some very interesting ones; not just this precise one, but in regard to the Customs Act and the Excise Tax Act that we shall tackle fairly speedily in the 1964 Report. Perhaps we should take the 1964 paragraph and the 1965 paragraph together and—

Mr. WINCH: That is just what I was going to ask, if possible.

Mr. HENDERSON: —call witnesses from the Department of National Revenue.

Mr. LEBLANC (*Laurier*): Mr. Chairman, could we do that in all matters that are going to be discussed if the same thing is said in the two reports, for 1964 and 1965? Probably when we study the 1964 Report we could move to the 1965 Report at the same time, and then get away from that particular matter and then start another one.

The CHAIRMAN: Mr. Leblanc, that is exactly what we intend to do. We will go through it just as quickly as we can to clear those to the 1965 Report so that we can get this cleaned up.

Mr. HENDERSON: Or vice versa, depending on the nature of the matter. If it is a matter of updating something, you would probably prefer to deal with it in the 1965 Report, or else move it forward.

Mr. WINCH: Mr. Chairman, may I—

The CHAIRMAN: Just before we leave the subject, Mr. Winch, I would just say that if he has any notion of the Committee going out to Vancouver to get the truth, this will be ruled out.

Mr. WINCH: I have brought it from Vancouver to Ottawa.

Mr. LEBLANC: If you will move that I will second.

The CHAIRMAN: Objection overruled.

Mr. HENDERSON: Mr. Chairman, at the last meeting Mr. Baldwin asked me if I could advise the Committee concerning the position of the Auditor General in other countries, in connection with his independence from the executive in recruiting the staff that he needs in order to do his work. I think perhaps hon. members will recall it. Accordingly I have looked up my notes on this subject because there was a discussion about this matter at the last Conference of Parliamentary Auditors General which was held in London in December, 1963, which I attended. At that conference the Auditor General of one of the smaller commonwealth countries outlined the circumstances whereby the executive government of his country was in a position to influence the course of audit, despite the provisions in the constitution that in the performance of his duties, the Auditor General shall not be subject to the direction or control of any authority other than parliament.

He said that this influence is rendered possible, and his audit is often frustrated by the refusal of the executive to provide the quantity or grade of staff he considers necessary to assist him in carrying out his duties, the recruitment, promotion and retention of staff being matters for the sole decision of his country's civil service commission.

The discussion which ensued at the conference showed that the extent to which such difficulties had arisen in practice seemed to vary in the different countries.

To sum up, it was agreed that from the point of view of constitutional theory, the position of every auditor general is weakened in such cases because the executive could limit staff and so frustrate his independence. It was the general view that the audit office should always be ready to accept its share of any over-all staff problems in its government service. The advice given to the Auditor General who had raised this problem was that he should report the full facts of his dilemma to the parliament of his country and to its Public Accounts Committee.

I thought this reference would be of interest to you, and I wish to place it on the record in response to Mr. Baldwin's question at the last meeting.

The CHAIRMAN: Thank you, Mr. Henderson. Now we will proceed with the 1964 Report.

Mr. HENDERSON: If we could turn to page 1 of the 1964 Report, English edition, I will seek to go through the paragraphs as expeditiously as possible and hon. members, perhaps, could interrupt me on any points that are not clear.

The CHAIRMAN: I shall keep an eye out for anyone that has his hand up as Mr. Henderson goes through this, and, as I said before, we shall do the 1964 Report as hurriedly as possible and will spend considerably more time on the 1965 Report.

Mr. HENDERSON: Commencing with paragraph 2 on page 1, this section simply quotes the wording of Section No. 70 of the Financial Administration Act and, as is stated there, Part VII of this Act deals with the responsibilities and functions of the Auditor General.

Paragraph 3 which follows points out how copies of the all-important statement of expenditure and revenue for the year and the statement of assets and liabilities at the close of the year, which have been certified by me, are reproduced and appended to this report of the Auditor General. I do this so as to provide the reader of this report with immediate and ready access to these basic financial statements which otherwise he would have to obtain by referring to the public accounts.

In addition, it will be noted that two other important statements included in the public accounts are likewise reproduced as exhibits to the Auditor General's Report.

Mr. THOMAS (*Middlesex West*): Are these—you call them exhibits in paragraph 3. Those are not the blue book; are these the exhibits from the back of this 1964 Report?

Mr. HENDERSON: Yes, they are reproduced, Mr. Thomas, from the Public Accounts. They are merely reproduced here because they represent basic statements and the reader may wish to refer to them as he looks over the manner in which some of the appropriations have been expended, and the explanations which we have given.

Paragraph 4 which follows deals with the Standing Committee on Public Accounts. This paragraph simply reviews the operations of the standing committee over the past year and I inserted it here as a convenience to the members of the House and to the members of the Committee.

While you are faced this year with having to examine both my 1964 Report and my 1965 one which was tabled on February 1st last, it did give me, as I say here, particular pleasure last year to be able to point out that with its Eighth Report, 1964, placed before the House on December 7, 1964, this Committee completed its total examination for the first time in recent years of all of the reports of the Auditor General to the House before its succeeding report had been tabled.

I must say to you that this was of tremendous help to me and my officers giving us as it did the benefit of your views on a considerable number of outstanding matters. It enabled us not only to eliminate repetitious comments but to bring this 1964 Report right up to date.

If I may, Mr. Chairman, I should like to pay tribute to the work done by the members of this Committee both in the closing months of 1963 and throughout 1964 under the distinguished chairmanship of your predecessor, Mr. Baldwin.

At the same time you will have noted that during that period the work of the Committee was assisted by two sub-committees; one dealing with the surplus assets disposal problem, and the other dealing with the form and content of the public accounts on which the Committee actually reported in the spring of 1965. These recommendations, as you will have noted from my 1965 Report, were promptly implemented in the 1964-65 Public Accounts tabled on February 1, 1966.

I think that is quite interesting. Your sub-committee and main committee brought down its recommendations in March 1965, and that year the public accounts reflected the Committee's recommendation. This was very speedy implementation by comparison with some of the other recommendations that the Committee has made.

The work of this Committee at that time enabled us to compile a convenient reference for members in the form of Appendix 1, and the Chairman just referred to this, which showed the fifty recommendations and observations you had made during 1963 and 1964, that had not been implemented or otherwise dealt with by executive action when my 1964 Report was tabled.

I hope you find this type of appendix treatment or summary useful. We intend to keep it up in subsequent reports. We ourselves find it very convenient in checking on the implementation of your recommendations.

Paragraph No. 5, Summary of Employees Authorized for the Public Service: The cost of salaries and wages constitutes one of the largest items of overhead in government organization. We have therefore been placing a summarized listing by departments and agencies, including their various subdivisions, in my report as an appendix, showing the number of employees authorized for the public service in all areas.

This Committee expressed much interest in this listing in past years, and in 1963, it discussed it in detail, and asked if the listing could be prepared in future to show a more detailed breakdown for various establishments by divisions and subdivisions, together with the number of employees actually on strength at the close of the year.

This has been done and the information now appears on this detailed comparative basis. If you study this listing, you will see that it furnishes a useful guide to the government's organization. We ourselves find it quite useful for such reference purposes. We show divisions of each department on as informative a basis as possible. The same comparative listing, but, of course, more up to date, is included in the 1965 Report. I do not know whether the members will have any questions on this; it is standard reference and, of course, it would be the 1965 one that you would look to. I think you referred to it, Mr. Thomas, at the last meeting when we were discussing the number of employees who were working for government departments as distinct from those who were working for Crown corporations.

Mr. THOMAS (*Middlesex West*): Who are under the Civil Service?

Mr. HENDERSON: That is right.

● (10:45 a.m.)

Paragraph 6 deals with the Scope of the Audit. The scope of our work is a subject to which we always must give the closest attention. We cannot examine every transaction in all departments and agencies, which is why we carry out test verifications. Provided these are comprehensive and of sufficient depth and frequency, they can be regarded as satisfactory, and as such conform to established and accepted auditing practices. We discussed this subject at some length at the last meeting, Mr. Chairman, when dealing with the follow-up report; perhaps further discussions could be deferred until we reach the same subject in the 1965 report.

Paragraph No. 7 has to do with the findings of the royal commission on government organizations. As you may recall, I outlined in my 1963 report to the House my concept of the responsibilities of the Auditor General to Parliament with regard to the findings of this royal commission.

In 1964 this Committee expressed the opinion in its fourth report to the House that this concept of the responsibilities of the Auditor General was in accordance with the intent and wishes of Parliament. I delayed carrying out this work in 1964 because of the research and planning then in progress under the direction of the Secretary of the Treasury Board aimed at determining the extent to which the recommendations of this royal commission could be implemented. In other words, I felt I should defer reporting at that time to the House on the action taken on the findings of this commission until the executive had had a fuller opportunity to make its final decisions on the basic or major recommendations of the Commissioners, particularly in the area of financial management.

However, as you know, we carried this work out in 1965, and I reported upon its result to the House in my 1965 report. I would therefore suggest that

your consideration of this subject be held until we reach this section in the 1965 Report.

Paragraph No. 8, The Form and Content of the Estimates. You will recall that in 1963 the Treasury Board submitted a proposed consolidation of votes to your Committee, and the task of studying the Board's proposals was given to a subcommittee in that year. In 1964 the Committee gave further attention to this matter, as you know from your study of my follow-up report, which resulted in detailed recommendations being made by the Committee in its fourth report in 1964, and what has transpired since.

I would suggest that, again, you might wish to defer your consideration of this subject until we reach my 1965 Report. I say that because I understand the Treasury Board expects to submit further proposals to this Committee during its present sittings designed to present the estimates of a number of departments on the proposed program and activity basis recommended by the Glassco Commission, with a view to having this replace the present objects of expenditure basis over a period of time.

This is important, because the form of the estimates will not only require changes in the many of the accounting procedures but will necessitate changes in a number of the financial statements.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, am I right in concluding that, as we go over these various items 2, 3, 4 and so on—we have now finished 8—these can all be taken up again under the 1965 Report?

Mr. HENDERSON: Substantially so, yes.

Mr. THOMAS (*Middlesex West*): And therefore we can cross these off if there are no questions as we go through them?

Mr. HENDERSON: Yes, that is right. We can refer back to them if anyone has any questions at a later date, but it is generally to give you the total picture beginning with 1964, but then to spend more time on 1965.

Having two reports before us makes it difficult, when we are trying to integrate them in this manner for you.

Mr. THOMAS (*Middlesex West*): Did I understand you, Mr. Henderson, to say in regard to Item No. 5 that we might hear questions on this one, or is this substantially the same in the 1965 report?

Mr. HENDERSON: In looking at the summary of employees in the public service—you would probably want to look at the most up to date one which is the 1965 report. You might, in reading that over quietly, have some suggestions to make as to how we could improve it. We had sought there to show the many boards and subsidiary set-ups of departments which are not always evident from just the casual listings of the—

Mr. THOMAS (*Middlesex West*): Could you indicate to us as you go along, for instance, if No. 8 here is covered in the 1965 report?

Mr. HENDERSON: Yes.

Mr. THOMAS (*Middlesex West*): Then we could simply cross them off.

Mr. HENDERSON: You are perfectly safe in crossing them off, Mr. Thomas.

The CHAIRMAN: Mr. Henderson, in this regard, I am wondering if we could not save time if you simply said, "No. 8, this appears in the 1965 Report", and leave your comments on this subject for 1965?

Mr. HENDERSON: I will be glad to do that, Mr. Chairman. You have a good example in the next one, No. 9, the Form and Content of the Public Accounts. As I have already mentioned to you, the recommendations made by this Committee were implemented within a few months, and that is described in detail in the 1965 paragraph, and I suggest that we do not spend any time on this, but deal with it in 1965.

Paragraph 10 is alone in 1964, so that perhaps you might like me to take a little time on that.

Mr. WINCH: As you know, sir, it took us years in this Committee to establish this principle, and we got it through. I hope we shall have a report on how it is working out.

Mr. HENDERSON: I am happy to tell you that, Mr. Winch. It was during your meetings in 1964 that you raised the question as to the sources of legal advice taken by the Auditor General in the course of his work.

Mr. WINCH: The lawyers did not like to have pointed out that you should have your own advice.

Mr. HENDERSON: That is right. The opinion was expressed and agreed to that the Auditor General should have recourse to legal advice in the form of written opinions independent of the crown and executive branch of the government. The Committee suggested to me that appropriate arrangements should be made.

These arrangements, which were discussed by the Chairman and the members of the Committee in 1964 were made by me with two firms of solicitors, one in Montreal, and the other in Toronto. In both instances the firms were solely of my own choice. The arrangements have worked very smoothly. I submit to them what legal questions I have in the course of our work, and the firm submits, written opinions to me in their capacity as my legal advisers. To date we have divided the questions more or less evenly between the two firms so as to keep the same type of questions with each firm. The cost of the services of both firms for the year ended March 31, 1965 totalled \$4,600. We are continuing on this basis, and I can tell you that it has proven to be a very satisfactory operation.

There are not opinions that I quote; they are written opinions to me in respect of the position that I have taken, and you may see fit, as we move through some of the paragraphs to ask me if I consulted my legal advisers in respect of this question or that. I have not made a practice of disclosing whether I have done so or not. I am hoping that, as some of these paragraphs are discussed, particularly if we have witnesses, that there will be occasions when my legal advisers might be privileged to attend the Committee and

listen to the discussion; whether you would wish them to participate in it or not is another question.

They are solely advisers to me; they are not expected to provide opinions which I should quote to the Committee unless as your servant you direct me to do so. Any comments you have on this point would be welcome.

Mr. THOMAS (*Middlesex West*): We understand, Mr. Henderson, that you now have the right to seek legal advice from any source, any independent source which you might choose.

Mr. HENDERSON: Yes, I have these two firms; I chose one in Montreal and one in Toronto.

Mr. THOMAS (*Middlesex West*): These firms are of your own choice, and if you wished to change them that would still be your prerogative.

Mr. HENDERSON: Yes, sir; that is right.

Mr. WINCH: I have one question on a matter in which I was most interested over the years. With respect to all the legal advice which you require now, do you refer to these two firms, or do you get any type of advice from the legal department of the federal government?

Mr. HENDERSON: We have—and always have had—a very good relationship with the Department of Justice and with the law offices of the crown in the various departments. In discussing a number of matters we simply suggest that the department should seek the advice of its own legal officers and that they please furnish a copy to me. If we feel that, because we are not lawyers, we would like another interpretation, then I consult with my legal advisers and ask them for an opinion.

Mr. WINCH: Did you give a figure as to how much it cost you in that first year?

Mr. HENDERSON: Yes, \$4,600 for the two firms.

Mr. WINCH: Do I then gather from that that, between the two firms, it only cost you \$4,600 for the first year? You very rarely get challenged by departments or anything on the legality of what you are doing? You must be working magnificently if it only cost you \$4,600?

Mr. HENDERSON: Well, sir, I estimated the cost ceilings for the opinions that I would require from the firms over a period of twelve months, and I think this was given to this Committee, or to the steering committee at the time. The estimate was \$7,500. They charged me so much for an opinion, I approve the bills, and I am happy to say that the first year's experience was \$4,600.

Mr. WINCH: The point I am trying to make is that with all your fantastic responsibilities, it cost you only \$4,600 for outside legal advice?

Mr. HENDERSON: That is right. That is what it cost my office to obtain the opinions that I requested. We have sometimes asked a department to obtain

opinions and give us copies. Some matters are easily resolved. There are a number of questions that we have had. But there are matters which come up in the course of our work on which legal judgment is required. I do not have any lawyers on my staff, and it is therefore a great convenience to call my advisers and to ask for their opinions which they then give.

Mr. WINCH: That then leads me to my final question, Mr. Chairman. With respect to the advice that you have received from the two firms in Montreal and Toronto, you have obtained it only because you felt that essentially you should obtain this legal advice. After having received that legal advice, and, I presume, followed through on it, have you then been challenged?

Mr. HENDERSON: No, sir.

Mr. WINCH: They have accepted that?

Mr. HENDERSON: I hesitate to use the word accepted; they have taken note of the position that I have taken and—

Mr. WINCH: And have not challenged you?

Mr. HENDERSON: —have either adopted the changes that have been proposed or done nothing. There will be a number of cases coming up in the 1964 and 1965 reports where I have consulted my legal advisers on whether or not I was correctly interpreting the legislation—not in every case—but in the cases where my officers and I have had doubts as to the legal position.

The CHAIRMAN: Gentlemen, it is eleven o'clock. I do not want to keep you here longer than you expected to stay, but if you would be willing to sit until 11:30 we will continue, or if you have other committee meetings to go to, I would be glad to have your views.

Mr. LEBLANC (*Laurier*): Mr. Chairman, I have a meeting on the Fisheries Committee at eleven.

Mr. McLEAN (*Charlotte*): I have a meeting in Fisheries at eleven too.

The CHAIRMAN: Well, gentlemen, we have made good progress, and we will adjourn at this point, and again we end up on No. 10, which is the office of the Auditor General. We always seem to end up at that point.

Mr. LEBLANC (*Laurier*): Before we complete No. 10, would it be possible to have the names of the two firms of solicitors?

The CHAIRMAN: Mr. Leblanc is wanting to know if it is possible to have the names of the two firms. Mr. Henderson, would you like to report at the next meeting?

Mr. HENDERSON: I offered the names of the two firms to this committee at its last session, when the arrangements were made Mr. Leblanc. The members said it was perfectly satisfactory to them if I refrained from disclosing them. There is no state secret about it, if it is the wish of the Committee that I disclose their names.

● (11:00 a.m.)

Mr. WINCH: I was a member of the steering committee with Mr. Hales, and our decision at that time was that we wanted an absolute free hand; we wanted no direction given to the Auditor General nor were we interested. We left that responsibility to the Auditor General. I am just saying, as a member of the steering committee—and I was at that meeting when this was offered and we said, “No. This is your responsibility, you accept that. And therefore, you move on your sole responsibility. If anything happens that we get any ideas, then we will be down your neck. We want no interference with a responsibility of this nature.” That is the position that we took at that time, Mr. Leblanc.

Mr. LEBLANC (*Laurier*): That is what I wanted to figure out.

The CHAIRMAN: I would suggest we leave the matter there and think it over before the next meeting.

Mr. NOBLE: Mr. Henderson, if the opinion of your legal advice is questioned, what would be the procedure from there?

Mr. HENDERSON: It seems to me it would be a matter for this Committee to decide, Mr. Noble. You conceivably would be faced with a confrontation between the law officers of the Crown and the advice which I have received. Presumably you would ask me in answer to one of the questions if I secured legal advice on it and I would say yes, and you would ask me if the legal advice supported the position I took, to which I would reply in the affirmative. Where the Committee would go from that point, I am without experience to say at the present time.

Mr. WINCH: Then we would sit in judgment, I presume.

Mr. HENDERSON: Presumably you would be interested then in hearing both sides of the case. And it is at that point that I would have no hesitancy, if it were the wish of the Committee, to have my legal adviser with me at the meeting.

The CHAIRMAN: We would become judge and jury

Mr. HENDERSON: I have not had any experience on that point, quite frankly, and I am very much in your hands on it.

Mr. NOBLE: It could be a possibility though, could it not?

Mr. HENDERSON: Indeed, sir. That was all weighed up by this Committee at the time that this arrangement was made in 1964.

Mr. THOMAS (*Middlesex West*): Mr. Henderson, under the order giving him the authority, apparently has the right to obtain legal advice from any source. There is no point in his naming the source from whom he has obtained legal advice because he can step out and obtain legal advice from some other firm.

Mr. WINCH: Unless it is challenged, in which case he will report to the Committee that there has been a challenge and both sides will be heard. I presume then the Committee will reach its own conclusions as to what is right.

The CHAIRMAN: All right, gentlemen. At the next meeting we will continue with the 1964 report, and I think we will be able to finish it; then we will be into the 1965 report and we will be having witnesses.

Mr. HENDERSON: This Thursday, at 11 o'clock, I think.

The CHAIRMAN: Eleven o'clock on Thursday. You will be notified in due course. Thank you, gentlemen.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations
and/or a translation into English of the French.

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LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

TUESDAY, MAY 3, 1966

Public Accounts, Volumes I, II and III (1964 and 1965)
Report of the Auditor General to the House of Commons (1964)

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; and Messrs.
G. R. Long and J. Douglas of the Auditor General's office.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,	Mr. Gendron,	Mr. Stafford,
Mr. Ballard,	Mr. Leblanc (<i>Laurier</i>),	Mr. Tardif,
Mr. Bigg,	Mr. McLean (<i>Charlotte</i>),	Mr. Thomas (<i>Maison-</i>
Mr. Cameron	Mr. Morison,	<i>neuve-Rosemont</i>),
(<i>High Park</i>),	Mr. Muir (<i>Lisgar</i>),	Mr. Thomas (<i>Middlesex</i>
Mr. Dionne,	Mr. Noble,	<i>West</i>),
Mr. Flemming,	¹ Mr. Prittie,	Mr. Tremblay,
Mr. Forbes,	Mr. Racine,	Mr. Tucker,
		Mr. Winch—(24).

J. H. Bennett,
Clerk of the Committee.

¹Replaced by Mr. Schreyer on April 27, 1966.

ORDER OF REFERENCE

WEDNESDAY, April 27, 1966.

Ordered,—That the name of Mr. Schreyer be substituted for that of Mr. Prittie on the Standing Committee on Public Accounts.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House.

REPORTS TO THE HOUSE

APRIL 27, 1966.

The Standing Committee on Public Accounts has the honour to present its

FIRST REPORT

Your Committee recommends that its quorum be reduced from 13 to 10 members.

Respectfully submitted,

(Note—This Report was concurred in by the House on May 4, 1966.)

APRIL 27, 1966.

The Standing Committee on Public Accounts has the honour to present its

SECOND REPORT

Your Committee recommends that it be authorized to sit while the House is sitting.

Respectfully submitted,

ALFRED D. HALES,
Chairman.

(Note—This Report was concurred in by the House on May 4, 1966.)

MINUTES OF PROCEEDINGS

THURSDAY, April 28, 1966.

The Standing Committee on Public Accounts having been duly called to meet at 11:00 o'clock a.m., the following members were present: Messrs. Cameron (*High Park*), Dionne, Flemming, Forbes, Hales, Lefebvre, Muir (*Lisgar*), Noble, Schreyer, Thomas (*Middlesex West*), Winch (11).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; and Messrs. Long, Crowley, Stokes, Douglas, Laroche, Rider, Sayers and Buzza of the Auditor General's Office.

At 11:35 a.m., there being no quorum, the Chairman postponed the meeting to the call of the Chair.

TUESDAY, May 3, 1966.
(4)

The Standing Committee on Public Accounts met this day at 11.10 a.m., the Chairman, Mr. A. D. Hales presiding.

Members present: Messrs. Baldwin, Ballard, Bigg, Cameron (*High Park*), Dionne, Flemming, Hales, Leblanc (*Laurier*), Lefebvre, Noble, Schreyer, Tardif, Thomas (*Maisonneuve-Rosemont*), Thomas (*Middlesex West*), Tucker, Winch (16).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; and Messrs. Long, Crowley, Douglas, Stokes, Laroche, Rider, Sayers and Buzza of the Auditor General's office.

The Committee resumed consideration of the Auditor General's Report for the year ended March 31, 1964.

Mr. Henderson reviewed paragraphs 11 to 61 inclusive and was questioned thereon, assisted by his officials.

Paragraphs 18, 45, 46, and 64 were referred to the Sub-Committee on Agenda and Procedure, respecting possible attendance of witnesses.

Mr. Henderson listed paragraphs to be considered at future meetings and at 1.00 p.m. the Committee adjourned until Thursday May 5, 1966.

J. H. Bennett,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, May 3, 1966.

● (11:05 a.m.)

The CHAIRMAN: Gentlemen, we now have a quorum.

We are now discussing the Auditor General's report, 1964, and we are on page 6, Item No. 11, and I will ask Mr. Henderson, the Auditor General, to proceed unless there is some other thing to be discussed.

Mr. BALDWIN: I must apologize for not being present at the last meeting. I was in Peace River in attendance with the Lieutenant Governor there.

I brought up a matter at the first meeting and I should have brought it to the attention of the committee at the last meeting, which I missed. Now I think it falls right in line with what the Auditor General was discussing with us earlier and that is the difficulty in connection with the recruiting of staff generally. I asked him a question at our first meeting on the procedure followed in other Commonwealth countries and whether or not the Auditor General had ever had an opportunity to discuss our particular problem, if it had been brought to their attention and if it had ever been the subject of any discussion. Now it might well be that some of these discussions could have been of a confidential nature, but I would ask the Auditor General if he is able at this time to answer the question which I raised at the first meeting.

Mr. THOMAS (*Middlesex West*): It was decided, I understood, that the Auditor General would go through this 1964 report as rapidly as possible and we should pass any of these items which appear again in the 1965 report and pick them up when we consider the 1965 report. In that way we could finish the 1964 report as quickly as possible.

Now if this matter of staff appears again in the 1965 report why should we not pass right over it now? We could go more carefully and deliberately through the 1965 report and deal with these matters then, rather than spend a great deal of time on the 1964 report when we have to face these matters again in the 1965 report.

Mr. BALDWIN: I think it is a good point, Mr. Chairman. I was not trying to initiate a discussion. It is simply that I asked Mr. Henderson this question. At the first meeting he did not have the answer. This was a delayed question and I would now ask for the answer. I did not intend, Mr. Chairman, to initiate a discussion. I would just like the information now.

An hon. MEMBER: Mr. Chairman, could I just say—

The CHAIRMAN: Mr. Winch was next.

An hon. MEMBER: Could I just add that there is no simultaneous translation taking place at the present time, unless the equipment is failing.

The CHAIRMAN: Is anybody else having trouble?

Thank you, Mr. Lefebvre.

Mr. WINCH: I just want to add that during one of the meetings, when Mr. Baldwin was unavoidably and necessarily absent, this very question regarding staff was raised; not only here but as regards staffing overseas. Unfortunately we have not yet received our transcript, but the question was answered during your absence.

The CHAIRMAN: Mr. Baldwin, maybe Mr. Henderson could tell you in a few words what he said at the last meeting.

Mr. A. M. HENDERSON (*Auditor General*): I furnished the committee with the information you requested and placed it on the record. It was unfortunately the first meeting from which you were absent.

I referred to my notes at the last conference of Commonwealth Auditors General and I outlined the circumstances existing in the other Commonwealth countries so it is now a matter of record and I think the minutes will no doubt be available within the next day or so.

Mr. BALDWIN: My apologies to the committee, Mr. Chairman. Thank you.

The CHAIRMAN: I would like to explain why the reports of committees are a little late in coming out. Translation of these reports presents a terrific job and it is making it a little difficult for them to come out as quickly as they used to.

Mr. HENDERSON: Now, Mr. Chairman, in answer to Mr. Thomas' question may I say that he quite properly outlined the procedure we are going to follow and I was merely going to suggest that, as we go through the 1964 report, members might like to write 1965 against those paragraphs which, in effect, are updated and duplicated in 1965.

Office of the Auditor General

11. The circumstances surrounding the staff shortage referred to in my Reports to the House for 1962 and 1963 have been considered by the Public Accounts Committee during the past year. The Committee was disturbed to find that the actual working strength of the Office had only increased from 159 to 161 in the period November 30, 1963 to April 30, 1964 with the result that the Office remained 18 auditors short of the total approved establishment of 179 originally agreed to with the Minister of Finance and the Treasury Board in July 1960, or over four years ago.

A detailed assessment has been made of the staff it is estimated will be required effective with the 1965-66 fiscal year, having regard not only to the importance of enlarging the scope of the audit work, but also taking into account the increased size of the government organization since July 1960 in terms of additional departments, Crown corporations and agencies. This assessment placed staff establishment needs for 1965-66 at a figure of 220 employees which, in my opinion, is the minimum strength necessary to carry out a basic external audit program within the framework of the existing government organization. In order to enable recruitment to be proceeded with as soon as possible, the Treasury Board has approved this figure with effect from October 1, 1964.

The recommendations and observations made by the Public Accounts Committee on this subject are contained in its Fourth Report 1964 presented to the House on July 28, 1964. It will be noted by reference to this in Appendix 1, item 16, that the Committee recorded its belief that as an officer of Parliament the Auditor General should be free to recruit the staff he needs in the same independent manner as do other officers of Parliament and the Crown corporations generally. It also noted that amendments to the Financial Administration Act are to be introduced in due course and stated that it believes appropriate amendments should be considered at that time designed to allow the Auditor General to appoint such officers and employees as are necessary for the proper conduct of his Office.

I think you will agree that we can withhold further discussion on this until we reach 1965, so I would suggest you just mark 1965 on that one.

Summary of Expenditure and Revenue

12. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1964, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General as required by section 64 of the Financial Administration Act, is reproduced as Exhibit 1 to this Report. The statement shows a deficit of \$619 million for the year. By comparison, there were deficits of \$692 million in the preceding year and \$791 million in 1961-62.

Now paragraph 12 refers to the statement of expenditure and revenue for the year ended March 31, 1964, prepared by the Department of Finance, for inclusion in the public accounts, and certified by the Auditor General. This statement, as you already know, is reproduced in Exhibit 1 to this report.

Expenditure

13. The Summary of Appropriations, Expenditures and Unexpended Balances by Departments for the fiscal year ended March 31, 1964, as published in the Public Accounts, is reproduced as Exhibit 3 to this Report and shows appropriations of \$7,101 million, expenditures of \$6,872 million and unexpended balances of \$229 million.

14. Of the \$7,101 million of appropriations available for expenditure in the year, \$2,805 million was provided by continuing statutory authorities and \$4,269 million was granted by Appropriation Acts (Nos. 1, 2, 3, 4, and 5 of 1963 and Nos. 2, 3, and 4 of 1964) while \$27 million remained available from a continuing 1962-63 appropriation (Department of Labour Vote 32a).

Of the \$6,872 million of expenditure during the year, \$2,805 million (41 per cent) was incurred under the continuing statutory authorities, with \$4,067 million (59 per cent) being spent under the authority of the appropriations granted for the year.

Of the \$229 million of unexpended balances at the end of the year, \$174 million lapsed in compliance with section 35 of the Financial Administration Act and \$55 million of Department of Labour Votes 32d and 34d remained available for expenditure in 1964-65 because of the special wording of the appropriations which read as follows:

"Vote 32d—Payments in accordance with terms and conditions approved by the Government Governor in Council to Provinces and in respect of Indian Bands under the Municipal Winter Works Incentive Program during the 1963-64 and 1964-65 fiscal years of amounts not exceeding fifty per cent of the cost of labour incurred in the period from November 1st, 1963 to such day in the fiscal year 1964-65 as may be determined by the Governor in Council, and in the case of projects in designated development areas and as authorized by the Minister of Labour in areas of heavy winter unemployment 60 per cent of such cost; and to authorize payments in those fiscal years to provinces in respect of previous Municipal Winter Works Incentive Programs in accordance with terms and conditions approved by the Governor in Council—\$35,000,000."

"Vote 34d—Payments in accordance with terms and conditions approved by the Governor in Council under the Winter House Building Program during the fiscal years 1963-64 and 1964-65 of \$500 per dwelling unit substantially built during the period December 1st, 1963 to March 31st, 1964—\$20,000,000."

Paragraphs 13-33 inclusive, which start running from page 7 to the top of page 12, deal with the expenditure side for the fiscal year ended March 31, 1964. As you will see, appropriations in that year totalled \$7,101 million, expenditures \$6,872 million and unexpended balances equal to \$229 million. Of the unexpended balances totalling \$229 million, \$174 million lapsed and \$55 million remained available for expenditures in 1964-65.

15. The lapsed balances of \$174 million represented 4.1% of the \$4,269 million of appropriations under Appropriation Acts. This compares with lapsed balances at the close of the preceding year representing 2.3% of the amounts appropriated in that year under interim supply Appropriation Acts and by Governor General's special warrants and 6.1% of the appropriations in 1961-62. In the following cases, the lapsed balances represented more than 10% of the appropriations under Appropriation Acts:

Paragraph 15 deals with the lapsed portion of the \$174 million and lists those amounts which represented more than 10 per cent of the appropriations under appropriation tax.

16. The following table summarizes the expenditure, by departments, for the fiscal year 1963-1964, in comparison with the corresponding amounts for the two previous years.

Comments are made in the following paragraphs regarding the significant increases or decreases in individual appropriations or groups of appropriations which mainly accounted for the variation between the departmental expenditure totals listed above for 1962-63 and 1963-64.

In paragraph 16 there is a table which summarizes expenditures in that year by departments comparing the figure with expenditures for the two previous fiscal years.

Beginning with paragraph 17, Agriculture, we describe the reasons for the major changes in each of the departments listed beginning with agriculture, as I say, and extending to other departments up to paragraph 33 at the close of the section.

Department	1961-62	1962-63	1963-64
Agriculture	\$ 219,752,000	\$ 183,427,000	\$ 225,681,000
Canadian Broadcasting Corporation	78,161,000	80,816,000	87,576,000
Citizenship and Immigration	65,016,000	66,115,000	71,545,000
External Affairs	95,571,000	85,197,000	97,023,000
Finance	1,511,953,000	1,354,780,000	1,406,435,000
Labour	168,885,000	348,292,000	280,384,000
Mines and Technical Surveys	67,599,000	71,130,000	67,759,000
National Defence	1,626,104,000	1,571,044,000	1,683,471,000
National Health and Welfare	1,039,311,000	1,122,448,000	1,203,855,000
National Revenue	75,330,000	78,725,000	82,996,000
Northern Affairs and National Resources ...	78,369,000	86,377,000	77,334,000
Post Office	185,003,000	189,344,000	206,895,000
Public Works	183,015,000	162,730,000	167,001,000
Royal Canadian Mounted Police	60,497,000	65,424,000	66,899,000
Trade and Commerce	91,866,000	65,768,000	73,584,000
Transport	410,391,000	416,019,000	423,258,000
Veterans Affairs	333,223,000	335,602,000	333,740,000
Other departments	230,600,000	287,104,000	316,965,000
	<u>\$ 6,520,646,000</u>	<u>\$ 6,570,342,000</u>	<u>\$ 6,872,401,000</u>

17. *Agriculture.* The increase of \$42 million or 23 per cent in expenditure by this department in 1963-64 in comparison with the preceding year was more than accounted for by the increase of \$50 million—from \$72 million to \$122 million—in the amount appropriated for the net operating loss of the Agricultural Stabilization Board, which was mainly due to a revaluation of the inventories of commodities held at March 31, 1964 (see paragraph 163 of this Report). Other significant variations in the year were decreases of \$6 million in the deficit of the Prairie Farm Emergency Fund and \$4 million in outlays on rehabilitation and reclamation projects.

18. *Canadian Broadcasting Corporation.* The appropriations providing for the operating and capital grants to this Corporation were charged \$88 million during the year, an increase of \$7 million or 8 per cent over 1962-63. The increase was mainly due to the higher net operating requirements of the radio and television services which amounted to \$78 million in 1963-64, an increase of approximately \$6 million over the preceding year.

19. *Citizenship and Immigration.* The increase of \$5 million or 8 per cent in expenditure by this department in 1963-64 compared with the preceding year was mainly due to increased expenditure by the Indian Affairs Branch on welfare, \$1.1 million (10 per cent); economic development, \$1 million (42 per cent); and education \$2 million (10 per cent).

20. *External Affairs.* Expenditure by this department increased by \$12 million or 14 per cent in the year under review due mainly to an increase of \$5 million (34 per cent) in the cost of memberships in, and contributions to,

international organizations and an increase of \$4 million (85 per cent) in assistance to other countries.

21. *Finance.* The 1963-64 expenditure of \$1,406 million by this department was \$52 million or 4 per cent greater than the total spent in the preceding year. The most significant variations were an increase of \$73 million (8 per cent) in interest on the public debt and a decrease of \$23 million due to the termination in the preceding year of payments under the Federal-Provincial Tax-Sharing Arrangements Act, 1956, c. 29.

22. *Labour.* The decrease of \$68 million or 19 per cent in expenditure by this department in 1963-64 in comparison with the preceding year was more than accounted for by a decrease of \$71 million (34 per cent) in payments to the provinces to provide financial assistance for vocational and technical schools and training programs.

23. *Mines and Technical Surveys.* Expenditure by this department decreased by \$3.4 million or 5 per cent during the year under review due to a decrease of \$4 million (37 per cent) in the expenditures of the Marine Sciences Branch.

24. *National Defence.* The expenditure of \$1,683 million in 1963-64 by this department was \$112 million or 7 per cent more than in the preceding year. The increase was more than accounted for by a \$76.5 million supplementary contribution by the Government to the Canadian Forces Superannuation Account to provide for additional liabilities resulting from an increase in the rates of pay of Armed Forces personnel \$29 million (11 per cent) higher expenditure for the Royal Canadian Navy, a \$5 million (12 per cent) increase in outlays of the Defence Research Board, and a \$4 million (15 per cent) increase in Mutual Aid to NATO countries.

25. *National Health and Welfare.* The increase of \$81 million or 7 per cent in expenditure by this Department in 1963-64 compared with the preceding year was largely accounted for by increases of \$56 million (17 per cent) in the Government's contributions under the Hospital Insurance and Diagnostic Services Act, \$11 million (11 per cent) in unemployment assistance, and \$7 million (1.3 per cent) in family allowance payments.

26. *National Revenue.* Of the \$4.3 million or 5 per cent increase in expenditure recorded for this Department in 1963-64, \$1.7 million (4 per cent) was in the Customs and Excise Division and \$2.5 million (7 per cent) in the Taxation Division. The increases were due to generally higher administrative costs in both Divisions.

27. *Northern Affairs and National Resources.* Expenditure by this Department was down \$9 million or 10 per cent in comparison with 1962-63. The most significant change was in expenditure of the Northern Administration Branch where there was no outlay comparable to the \$7 million write-off in the preceding year of loans made to the Northern Canada Power Commission for the construction and installation of public utilities at Inuvik, N.W.T. Expenditure by the National Parks Branch on the construction or acquisition of buildings, works, land and equipment decreased by \$4 million (24 per cent). Contributions to provinces to assist in the development of roads leading to

resources were \$2.2 million (22 per cent) less than in the preceding year whereas contributions to provinces to assist in the conservation and control of water resources increased to \$7.6 million from \$3.1 million.

28. *Post Office.* The expenditure of this Department increased by almost \$18 million or 9 per cent in the year under review, due to payment of a retroactive salary increase amounting to \$5 million and to general increases in the cost of operations during the year.

29. *Public Works.* Although the expenditure of \$167 million by this Department in 1963-64 represented an increase of only \$4 million or 2.6 per cent over the preceding year, there were two substantial changes in individual expenditure classifications. There was an increase of \$8 million (25 per cent) in outlays connected with the construction of the Trans-Canada Highway and a decrease of \$7 million (24 per cent) in expenditure on harbour and river works.

30. *Trade and Commerce.* Expenditure by this Department increased by \$8 million or 12 per cent in comparison with 1962-63 due largely to an increase of \$4 million (12 per cent) in payments to the Canadian Wheat Board with respect to the carrying costs of temporary wheat reserves.

31. *Transport.* Although the expenditure of \$423 million by this Department in 1963-64 represented an increase of only \$7 million or 1.7% over the preceding year, there were significant changes in several individual expenditure classifications. There were increases of \$18 million—from \$22 million to \$40 million—in capital subsidies for the construction of commercial and fishing vessels; \$18 million—from \$50 million to \$68 million—in interim payments to railways to maintain freight rates at reduced levels; \$9 million—from \$12 million to \$21 million—in railway construction subsidies; \$6 million (11%) in marine services; together with payments to the Canadian National Railways of \$4 million in respect of the termination of the collection of tolls on the Victoria Bridge, Montreal, and \$3 million of interest on the cost of constructing the rail diversion on the Bridge for which there were no comparable expenditures in the preceding year. Largely offsetting these increases were reductions in the deficits of the Canadian National Railways and Trans-Canada Air Lines of \$6 million (12%) and \$4 million (100%) respectively, and decreases of \$5 million (94%) in payments to the National Harbours Board, \$16 million (12%) in the expenditure by air services mainly with respect to construction of national airports, and \$21 million in outlays under the Freight Rates Reduction Act, there being no disbursements under the provisions of this Act in the year under review.

32. *Veterans Affairs.* Expenditure by this Department of \$334 million was \$2 million or 0.6% less than in the preceding year, there being no significant changes in any items of expenditure classification.

33. *Other departments.* The increase of \$30 million or 10% in the amount shown for "Other departments" in the table in paragraph 16 was due to a number of significant changes in the expenditures of the smaller departments. Expenditure by the Department of Defence Production was \$11 million (34%) higher than in the preceding year due largely to an increase, from \$8 million to \$19 million, in outlays to sustain technological capability in Canadian industry.

Expenditure by the Department of Forestry was up \$10 million (31%) mainly in respect of freight assistance and storage costs on western feed grains and payments under the Agricultural Rehabilitation and Development Act. There were also increases in expenditure by the National Research Council.

The CHAIRMAN: May I just interject here, Mr. Henderson? From here to 33 will not appear in 1965, so if the members have any questions they should put them now as this is all to be dealt with in 1964

Mr. HENDERSON: If I may be permitted, Mr. Chairman, I would explain that it does, of course, appear in 1965 but it is the later year's figures and conceivably you might be more interested in comparing 1965 with 1964 than perhaps taking time to compare 1964 with 1963. Unless you have any marked sections here or questions you would like to ask, I would suggest you might spend a little more time on this in your consideration of the 1965 report. However, I have full information here and my representatives are present to deal with any points that might have caught your eye and on which you would like further information. We generally highlight the major reasons for changes in the figures by way of providing explanations as to increases and in some cases decreases; very largely increases because expenditures continue to rise each year, as you are fully aware.

Mr. THOMAS (*Middlesex West*): Have these reports all been approved by Parliament?

● (11:20 a.m.)

Mr. HENDERSON: Oh, yes sir, this is just commenting on the results for the year and endeavouring to explain to you the reasons for the increases.

Now on paragraph 34 and running through to paragraph 43 we have—

Mr. WINCH: Are you cutting 18?

Mr. HENDERSON: Paragraph 18, Mr. Winch?

Mr. WINCH: Yes, I would like to ask, Mr. Chairman, on paragraph 18, if I could recommend that you ask the steering committee to consider whether or not a recommendation should be made to the general committee on calling the Canadian Broadcasting Corporation officials before us relative to their expenditures and changes as related to policy. I just ask that this be considered by the steering committee.

The CHAIRMAN: At the next meeting of the steering committee I will bring that to their attention and report back to the committee. I realize this is an important matter but this committee should consider it.

Mr. BALLARD: Mr. Chairman, again referring to Section 18 there have been suggestions from various places that the CBC be made into a crown corporation. Could Mr. Henderson tell me, first of all, whether it would be proper for this Committee to make such a suggestion and, secondly, what effect would it have on the presentation in public accounts if the CBC were made a crown corporation?

Mr. HENDERSON: Well, Mr. Ballard, the CBC is a crown corporation now and is categorized and provided for as such by the Financial Administration Act. Its annual accounts are prepared in the usual corporate form. I am the auditor of

the Corporation, and its accounts are reproduced in the public accounts. I deal with the details of these accounts under the crown corporation section in my report each year. We shall come to a paragraph on that in 1964 and a more up to date paragraph in 1965.

Mr. BALLARD: And other crown corporations such as Northern Transportation and—

Mr. HENDERSON: Exactly the same treatment.

Mr. BALLARD: They are handled in the same way, is that right?

Mr. HENDERSON: Yes. In the crown corporation section of this report a paragraph is devoted to each of the crown corporations I audit and fairly full details are given on their revenues, expenditures, and their balance sheet position. Comments on matters that I have felt should be drawn to the attention of the House—in other words to this committee—are contained therein.

Mr. WINCH: Mr. Chairman, may I say a word here? There is some doubt in my mind and I would like to ask about it. I feel, and that is the reason I am asking the question, that this must be referred to the steering committee. Should the steering committee recommend a complete study of the business of financing reports of the Canadian Broadcasting Corporation, you yourself, sir, would not feel embarrassed as Auditor General in view of the fact that you were previously a comptroller of the Canadian Broadcasting Corporation.

Mr. HENDERSON: No, I do not think I would feel at all embarrassed, Mr. Winch. In fact I would hope that I might thereby be able to make a greater contribution to the discussions by reason of that experience.

I would mention, dealing with the method of financing the CBC, that that method is the subject of a paragraph in my 1965 report, and when we reach that, I think the committee will most certainly be very interested in weighing it up and considering it. That will afford a very real opportunity to express opinions on the method of financing. Of course the accounts are naturally covered by this committee, if it wishes to examine the Corporation.

34. The Summary of Revenue by Main Classifications and Departments for the fiscal year ended March 31, 1964, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General, is reproduced as Exhibit 4 to this Report. The summary shows tax revenues accounting for \$5,534 million of the total revenue of \$6,253 million.

Paragraphs 34 to 43 deal with revenue and again cover the revenues in this case for the year ended March 31, 1964, which as you will see total \$6,253 million, made up of tax revenues of \$5,534 million and non-tax revenues of \$719 million.

35. The following table summarizes the revenue, by principal sources, for the past three years.

Paragraph 35 includes the table summarizing these revenues by their principal sources for the year we are reviewing, and the figures are compared with like figures for the two previous years.

	1961-62	1962-63	1963-64
Tax revenues:			
Personal income tax	\$ 1,792,656,000	\$ 1,744,626,000	\$ 1,865,074,000
Corporation income tax ...	1,202,054,000	1,182,837,000	1,258,957,000
Income tax on dividends, interest, etc., going abroad	112,306,000	129,137,000	124,500,000
Sales tax	759,678,000	805,971,000	946,055,000
Other excise taxes	262,526,000	260,378,000	273,415,000
Customs duties	534,516,000	644,992,000	581,442,000
Excise duties	362,799,000	381,866,000	393,326,000
Estate tax	84,579,000	87,143,000	90,671,000
Other tax revenues	51,000	27,000	92,000
	<u>5,111,165,000</u>	<u>5,236,977,000</u>	<u>5,533,532,000</u>
Non-tax revenues:			
Return on investments	307,502,000	311,861,000	366,413,000
Net postal revenue	183,679,000	192,772,000	200,717,000
Other non-tax revenues ..	127,278,000	137,099,000	152,542,000
	<u>618,459,000</u>	<u>641,732,000</u>	<u>719,672,000</u>
	<u>\$ 5,729,624,000</u>	<u>\$ 5,878,709,000</u>	<u>\$ 6,253,204,000</u>

37. *Excise taxes.* The following is a summary of the excise taxes, other than sales tax, collected during the year ended March 31, 1964, with comparable amounts for the two previous years:

	1961-62	1962-63	1963-64
Cigarettes	\$ 185,176,000	\$ 195,313,000	\$ 200,211,000
Manufactured tobacco	19,599,000	19,123,000	23,460,000
Phonographs, radios and tubes ..	8,853,000	9,875,000	11,432,000
Toilet articles and preparations ..	9,397,000	10,142,000	11,126,000
Television sets and tubes	9,570,000	10,059,000	10,578,000
Jewellery, clocks, watches, chinaware, etc.	5,577,000	5,793,000	6,353,000
Wines	3,350,000	3,727,000	3,814,000
Cigars	2,775,000	3,372,000	3,267,000
Sundry excise taxes	3,943,000	3,350,000	3,505,000
Automobiles	25,270,000	—	—
Refunds and drawbacks	—10,984,000	—376,000	—331,000
	<u>\$ 262,526,000</u>	<u>\$ 260,378,000</u>	<u>\$ 273,415,000</u>

The excise tax on automobile sales was repealed effective June 21, 1961. The repeal of this tax, which was accompanied by remission of the tax on automobiles in the hands of dealers, resulted in the large amount of refunds and drawbacks in 1961-62.

38. *Customs duties.* The decrease of \$64 million in customs duties in 1963-64 in comparison with the preceding year was due to the removal by April 1, 1963 of the special rates imposed by the Surcharge on Imports Order of June 24, 1962.

39. *Excise duties.* A listing of the excise duties collected during the year ended March 31, 1964, in comparison with the corresponding amounts for the two previous years, is given in the following table:

	1961-62	1962-63	1963-64
Cigarettes	\$ 151,034,000	\$ 157,049,000	\$ 157,054,000
Spirits	114,088,000	122,099,000	129,406,000
Beer	92,716,000	98,147,000	102,907,000
Other excise duties	9,521,000	9,463,000	8,623,000
Refunds and drawbacks	—4,560,000	—4,892,000	—4,664,000
	<u>\$ 362,799,000</u>	<u>\$ 381,866,000</u>	<u>\$ 393,326,000</u>

Changes in various of the tax revenue figures shown in the table are set forth in paragraphs 37, 38 and 39, along with a brief explanation as to their cause.

40. *Return on investments.* The following is a listing of the revenue from the various investments in 1963-64, along with the comparable figures for the two previous fiscal years:

	1961-62	1962-63	1963-64
Bank of Canada	\$ 107,693,000	\$ 96,680,000	\$ 116,386,000
Central Mortgage and Housing Corporation	71,754,000	79,925,000	85,525,000
Exchange Fund Account	32,606,000	35,227,000	62,594,000
Loans to National Governments ..	30,825,000	29,272,000	26,301,000
Deposits with chartered banks ..	6,394,000	14,395,000	13,702,000
Canadian National Railways	1,452,000	3,824,000	13,018,000
Farm Credit Corporation	5,962,000	8,482,000	10,869,000
Veterans' Land Act loans	5,895,000	6,549,000	7,373,000
Securities Investment Account ..	15,068,000	12,351,000	4,059,000
Polymer Corporation Limited ...	3,000,000	3,000,000	3,500,000
National Harbours Board	3,943,000	3,631,000	3,475,000
Canadian Overseas Telecommuni- cation Corporation	1,516,000	1,971,000	2,586,000
The St. Lawrence Seaway Authority	—	—	2,568,000
National Capital Commission	1,505,000	1,776,000	2,319,000
Eldorado Mining and Refining Limited	5,000,000	3,000,000	2,000,000
Northern Canada Power Commission	871,000	1,696,000	1,648,000
Northern Ontario Pipe Line Crown Corporation	4,310,000	4,087,000	1,583,000
Other loans and investments	9,708,000	5,995,000	6,907,000
	<u>\$ 307,502,000</u>	<u>\$ 311,861,000</u>	<u>\$ 366,413,000</u>

41. The amounts shown for revenue from the investment in the Bank of Canada represent the annual profits earned by the Bank and surrendered to the Receiver General as required by section 28 of the Bank of Canada Act, R.S., c. 13.

The Central Mortgage and Housing Corporation amount for 1963-64 comprised \$80,297,000 (\$74,337,000 in 1962-63) of interest on advances under section 22 of the Central Mortgage and Housing Corporation Act, R.S., c. 46, and \$5,228,000 (\$5,588,000 in 1962-63) representing the profit for the Corporation's financial year ended December 31, 1963 which was transferred to the Receiver General as required by section 30 of the Act.

The substantial increase of \$27 million in earnings of the Exchange Fund Account for the calendar year 1963 resulted from increases in investment holdings and investment portfolio changes.

The reduction of approximately \$3 million in interest on loans to National Governments is due to principal repayments of \$129 million during the previous year.

The increase of \$9,194,000 in interest from the Canadian National Railways is due to the payment of a full year's interest on an amount of \$250 million advanced to the Canadian National Railways in February and March 1963 under authority of the Refunding Act of 1955.

The decrease of \$8,292,000 in revenue from the Securities investment Account is due to there having been no acquisition of securities of Canada for the subsidiary Purchase Fund during the year.

The amount of \$2,568,000 represents interest on loans made to The St. Lawrence Seaway Authority of which \$68,000 is interest on temporary loans and \$2,500,000 is in respect of interest for the year 1961.

The revenue from the investment in the Northern Ontario Pipe Line Crown Corporation, representing interest on loans made to the Corporation by the Government of Canada, decreased by \$2,504,000 by reason of the fact that Trans-Canada Pipe Lines Limited exercised its option to purchase the Northern Ontario section on May 29, 1963, whereupon the Corporation discharged its liability for loans then outstanding.

In paragraph 40 a listing is given of the major items constituting the non-tax revenue item entitled Return on Investments which, as you will see, for the year, amounted to \$366 million. The larger changes shown in this listing are then explained in paragraph 41. For example the dividends received from the Bank of Canada, interest from Central Mortgage and Housing Corporation, earnings from the exchange fund account and interest from other sources such as loans to national governments, Canadian National Railways and the St. Lawrence Seaway Authority.

MR. WINCH: Mr. Chairman, may I ask one question here? Can I ask through you, Mr. Henderson, if in the 1965 report we can deal with a question which I feel is of importance, and that is the report on investment policies of such corporations as Polymer, Eldorado and Northern Canada Power Commission, et cetera.

MR. HENDERSON: Indeed you can, Mr. Winch, because the same information is shown for the 1965 year in like manner and it would be a very appropriate place to—

MR. WINCH: I presume, Mr. Chairman that at that time then you will give consideration to the calling of officers of these corporations on investment policy?

The CHAIRMAN: That is correct.

Mr. HENDERSON: Paragraph 42 covers net postal revenue which, as you will see, is \$201 million and which is the second largest non-tax revenue item.

42. *Net postal revenue.* The following table shows the gross postal revenue, less disbursements therefrom, and the resulting net postal revenue for the past three fiscal years:

	1961-62	1962-63	1963-64
Gross postal revenue	\$ 213,518,000	\$ 222,300,000	\$ 235,808,000
Disbursements—			
Remuneration of postmasters and staffs at certain classes of smaller post offices	25,171,000	25,239,000	29,936,000
Other disbursements	4,668,000	4,289,000	5,155,000
	29,839,000	29,528,000	35,091,000
Net postal revenue	\$ 183,679,000	\$ 192,772,000	\$ 200,717,000

The amounts shown for "Other disbursements" mainly comprise charges on parcels mailed in Canada for delivery in foreign countries and transit charges on Canadian mail forwarded through foreign countries, together with compensation paid to messengers for special delivery of letters and parcels.

In paragraph 168 of this Report a summary is given of the Post Office transactions for the year under review, in comparison with the corresponding figures for the preceding fiscal year, together with comments on the recorded excess of expenditure over revenue.

Mr. WINCH: Again may I ask a question, Mr. Chairman. This is a matter which we have considered over the years. The public accounts committee made various recommendations.

I presume, Mr. Henderson, through you, Mr. Chairman, that in the 1965 report we will be able to consider this matter because I think now this committee has reached a stage where we have to have some finalization with the Post Office Department on the various recommendations made on this situation. Am I correct, then, that we can do this in the 1965 report?

Mr. HENDERSON: Yes. The question of second class mail comes up both in this report and in 1965 and it is under the 1965 report that you will deal with second class mail, at which time you might also like to take in the other aspects of the Post Office Department.

I mentioned the other non-tax revenues which are shown in paragraph 43.

43. *Other non-tax revenues.* An analysis of the amounts shown in the table in paragraph 35 for "Other non-tax revenues" for 1963-64 with comparable figures for the two previous fiscal years is given in the following table.

	1961-62	1962-63	1963-64
Services and service fees	\$ 42,453,000	\$ 46,186,000	\$ 51,321,000
Proceeds from sales	25,902,000	26,531,000	28,445,000
Privileges, licences and permits ..	23,271,000	25,008,000	27,172,000
Refunds of previous years' expenditure	18,163,000	22,392,000	26,839,000
Bullion and coinage	7,965,000	9,404,000	9,717,000
Miscellaneous	9,524,000	7,578,000	9,048,000
	<u>\$ 127,278,000</u>	<u>\$ 137,099,000</u>	<u>\$ 152,542,000</u>

We now come to comments on expenditure and revenue transactions beginning with paragraph 44.

44. Reference has already been made to the statutory responsibility of the Auditor General, under section 70 of the Financial Administration Act, to call attention to specific classes of transactions observed during his examinations and to any other case that he considers should be brought to the notice of the House of Commons.

Pursuant to this direction, the following matters relating to the expenditure and revenue transactions examined during the fiscal year under review are brought to the attention of the House in this Report.

Paragraph 45 is contained only in the 1964 report. It does not appear in 1965 because no special warrants, I believe, if my memory serves me correctly, were exercised during the intervening year, so that you might wish to dispose of paragraph 45 now.

45. *Governor General's special warrants.* The dissolution of Parliament on February 6, 1963 before full supply for the year 1962-63 had been granted necessitated recourse to Governor General's special warrants in order to provide the necessary funds for the carrying on of government services during the months of February and March 1963. These special warrants were reported and commented upon in paragraph 45 of my 1963 Report.

As the new Parliament did not assemble until May 16, 1963, Governor General's special warrants were required during the months of April and May as follows:

- (a) one for \$260,979,774 on April 1, 1963 which provided the funds which it was estimated would be required during the month of April 1963; and
- (b) one for \$354,416,247 on May 2, 1963 which provided the funds which it was estimated would be required during the month of May 1963 or until Parliament was able to appropriate interim supply.

These two warrants were based on, and were approximately one-sixth of, the Main Estimates for 1963-64 and the amounts were subsequently included in the amounts authorized by Appropriation Act No. 1, 1963, c. 1.

The special warrants issued in the fiscal year ended March 31, 1963 had included a number of items which did not meet the test of being "urgently required for the public good", as required by section 28 of the Financial Administration Act. After considering this matter in its examination of the 1963 Report, the Public Accounts Committee in its Fourth Report 1964 recommended

that a study be made of Governor General's special warrants (see Appendix 1, item 8).

The two warrants issued during the year under review each included three items which did not meet the test of being "urgently required for the public good". These are:

- (1) An item "to supplement other votes, subject to the approval of the Treasury Board, for the payment of salaries, wages and other payroll charges". Obviously the payment of the amounts was not urgently required when the special warrants were issued and the Governor in Council in effect delegated to the Treasury Board his authority under section 28 of the Financial Administration Act although there is no provision for such delegation.
- (2) An item "miscellaneous minor or unforeseen expenses, subject to the approval of the Treasury Board, and awards under the Public Servants Inventions Act". As in (1) above, these items were not urgently required when the special warrants were issued and represented an unauthorized delegation of authority to the Treasury Board.
- (3) Amounts totalling \$123,900 to cover the administrative expenses of the National Gallery of Canada without taking into consideration approximately \$53,000 available for this purpose in the Gallery's special operating account.

We have been advised by the Secretary of the Treasury Board that, in accordance with the recommendation of the Public Accounts Committee, a study is currently being made of the financing problems which result when Parliament has been unable to make provision for the carrying on of governmental services between sessions.

A special warrant issued in the 1962-63 fiscal year—that is the year previous to this one—had included a number of items which did not meet the test of being—and I am quoting from the Act—"urgently required for the public good" as required by Section 28 of the Financial Administration Act. After considering these cases—its examination of the 1963 report—this Committee, in its fourth report, 1964, recommended that a study be made of Governor General's special warrants. Now this recommendation, you may recall, was the subject of item 8 in our 1966 follow-up report. In commenting on this to you in that report I stated that I had not been informed of any study being made along the lines recommended by the Committee, but I did quote from a letter addressed by the Minister of Finance on March 4, 1965, to the Chairman of the Committee in which he stated that in the course of discussion on this subject in the public accounts Committee the Secretary of the Treasury Board undertook to consider the desirability of enlarging on the special Governor General's warrant provisions in the Financial Administration Act and in particular Section 28, in order to clarify its application to situations arising when Parliament is dissolved without having appropriated the necessary expenses of the public service. The Minister went on to say in his letter that suggestions have been discussed for changes in this section of the Financial Administration Act and that these were

then being studied. He added that should the government decide that an amendment to the Act is desirable, it will present its proposals to Parliament in the usual way.

Now in the 1964 note that you have before you in paragraph 45, we refer of course to the two warrants issued during April and May of the 1963-64 year, and we explain how they included three items which, in our view, did not meet the test of being urgently required for the public good, and these items are described in this note. In other words the practice I criticized in 1963 still obtained in 1964.

I would hope that this Committee might see fit to make a further recommendation to the government specifically recommending that appropriate amendments to Section 28 of the Financial Administration Act be drafted for the purposes of specifying precisely what type of expenditures may be made when Parliament has been unable to make provisions for the carrying on of governmental services between sessions.

I do not know, Mr. Chairman, the extent to which the Committee might want to be involved in working out or drafting up appropriate amendments. Perhaps you might like to invite the Secretary of the Treasury Board to come back to the Committee and to discuss this matter. You see, the only recommendation you made last time was that a study should be made, which has been a subject of my comment in the 1963 report and enlightens the situation I described to you. I am in your hands as to just where we should go from here. Now, Governor General's warrants, as you know, were operative during 1965 and it is too early for me to say the extent to which I may have comments about these in my 1966 report, but the fact of the matter is the situation is not changed and is continuing, and it does seem a proper thing to raise the question of whether you would be prepared to recommend that more specific steps be taken now towards actually amending Section 28.

Mr. BALDWIN: Mr. Chairman, I was just going to make that same suggestion. I think the Committee should, at the appropriate time, ask Dr. Davidson and possibly even, in due course, the Deputy Minister of Finance and, if necessary, the Minister of Finance, to appear before us so that we can cover the situation fully. Those of us who recall the discussions which took place during the passing of the estimates for last year will maybe remember that this was brought up, this was discussed. There is no doubt that when the Auditor General comes to make his report on the year 1965 he is bound to call attention to the fact that there were Governor General's warrants for that year. I do not think there is any doubt that there will be a repetition of the same situation which has been the subject of discussion and, to some degree, of complaint—I think of justifiable complaint—by this Committee.

So I would hope that you, Mr. Chairman, at the time when the steering committee is considering agenda for the future and the witnesses who will be called, will arrange very early for Dr. Davidson to come and, if necessary, I think we should possibly hear from both the Deputy Minister of Finance and the Minister of Finance. I would like to see this Committee, before it complete its deliberations, give very serious consideration to substantial amendments to

the Financial Administration Act and to deal with it basically and with other things as well. That is as far as I will go now because we will have an opportunity later on, but as this paragraph is not repeated in the 1965 report of the Auditor General I would like to make these comments and hope the Committee will not desist this year until we have made some very definite and very strong recommendations.

The CHAIRMAN: Thank you, Mr. Baldwin.

Mr. WINCH: Mr. Chairman, on doing my homework on the report of the Auditor General for the fiscal year ending March 31, 1964, I made a special note of the last paragraph of No. 45 which appears on page 17, in which it is said:

We have been advised by the Secretary of the Treasury Board that, in accordance with the recommendation of the Public Accounts Committee, a study is currently being made of financing problems which result when Parliament has been unable to make provision for the carrying on of governmental services between sessions.

This is now May of 1966 and I would like to ask a direct question. In May of 1966 have you been advised directly, in any way whatsoever, of any special study having been made and—

● (11:35 a.m.)

Mr. HENDERSON: I was advised by the Secretary of the Treasury Board that this was going to be done. I have not, as I say, been advised directly that it has been done and that a study has been completed but in the periodical talks which I had with the Secretary of the Treasury Board he has been good enough to tell me indirectly that the matter is still engaging their attention and he had nothing to add at the present time. This is, of course, confirmed in the statements made by the Minister of Finance when he wrote over a year ago to the Chairman of the committee in response to the committee's own recommendation.

Mr. WINCH: You have no report of the study which you were advised in 1963 was currently being undertaken?

Mr. HENDERSON: No, I have not heard any advice beyond that which I described to you.

The CHAIRMAN: Mr. Winch and Mr. Baldwin, these are questions that you can ask when we have the officials before us in the Committee—and it might be possible to have them at the next meeting—or you might prefer to leave these questions until we have some other matters that would accumulate and ask them all at once.

Mr. BALDWIN: One other suggestion, Mr. Chairman, before we leave that. As it involves the question of interpretation of this particular Act—the Financial Administration Act—and as there have been different interpretations given, you and Mr. Henderson might give some consideration to having one of the legal advisers to the Auditor General present on the occasion of one of these discussions in case we would like to benefit from the opinion of the legal adviser on the different interpretations of that part of the Financial Administration Act

under which the special warrants of the Governor General have been issued and moneys paid.

Mr. HENDERSON: Well I might mention, Mr. Baldwin, that I have not felt that it was necessary to consult my legal advisers on the points that I have made in this paragraph because for the reasons I state it seems to me to be self-evident they scarcely met the requirement of being urgently required for the public good. Conceivably it might have been of some assistance to bring my legal advisers in but I only refer to them—and I mentioned this in some detail at the last meeting—where I want a written legal opinion on a specific case. If the Committee felt they would like to have this studied by my legal advisers they have only to say so, but I have not engaged them unless I felt it was completely necessary.

Mr. BALDWIN: You do not think there has been any real challenge of this particular section?

Mr. HENDERSON: I do not find any challenge there at all, sir. I think it was in my knowledge that the Secretary of the Treasury Board and his associates found the interpretation they are required to bring to the wording of Section 28 a difficult one, and the matter is left on the basis that I think it would help everyone if it could be clarified on a specific basis.

46. *Prairie Farm Emergency Fund.* The deficit in the operations of this Fund during the year was \$1,073,000, compared with deficits of \$7,295,000 and \$47,733,000 in the two preceding fiscal years.

The Fund operates as a special account within the Consolidated Revenue Fund to record transactions under the *Prairie Farm Assistance Act*, R.S., c. 213. Under the Act, a levy of 1% is imposed on the purchase price of grain purchased by licensees under the *Canada Grain Act*, and the moneys collected, which totalled \$9,141,000 during the past year, were credited to the account. Awards are made to eligible farmers in areas affected by crop failure in the provinces of Manitoba, Saskatchewan and Alberta and the Peace River District of British Columbia. During the year awards amounted to \$10,214,000 and the \$1,073,000 by which these exceeded the revenue from the 1% levy was charged to Department of Agriculture Vote 175e.

On December 13, 1963 the parliamentary Committee on Privileges and Elections recommended the appointment of a Commission to inquire into payments made under the *Prairie Farm Assistance Act* relative to the 1962 crop year. Accordingly, a Commission of Inquiry was established by Order in Council P.C. 1963-1396 of December 21, 1963 and reported its findings on June 10, 1964.

The Public Accounts Committee at its meeting on June 4, 1964 was informed of the limited audit performed by the Audit Office of the expenditures of the Fund in recent years and was assured that, with an improvement in the staff situation, an annual examination would be undertaken in future. Accordingly, a test examination of the accounts was made for the year ended March 31, 1964. In our opinion the following matters which have financial consequences arising from the application of the provisions of the Act require serious consideration.

A Board of Review is established by the Act to examine all information and data regarding the average yield of wheat in any township and to determine the

eligibility of any area for an award. The Board is also required to decide questions concerning the eligibility of any farmer or class of farmers for awards under the Act. No minutes are maintained by the Board recording its policies and reasons for certain of its decisions with respect to applications for awards and other relevant matters. As a result, difficulty was experienced in the verification of the eligibility of townships and farmers for awards under the Act.

Inspections are made of areas suffering a crop failure and it is the duty of the inspectors to obtain information from farmers concerned and to determine the actual yield on each parcel of land. The information is recorded on a "Cultivated Acreage Report", which is required to be signed by the farmer and by the inspector. These reports form the basis of the awards and, if the inspectors fail to carry out their duties properly or if there is collusion, it would be difficult, if not impossible, for irregular payments to be detected. The Audit Office is therefore in agreement with the recommendations of the Commission of Inquiry that greater care be taken in investigating and checking the accuracy of reports, that consideration be given to placing the permanent staff of the Prairie Farm Assistance Administration under the Civil Service of Canada, and that spot checks be made throughout municipalities by investigators from P.F.A.A. headquarters.

Our examination revealed that one township had been eligible for an award in 23 out of the 25 crop years between 1939, when the program of crop failure assistance was inaugurated, and 1963. Thirty surrounding townships were eligible on an average of 20 out of the 25 crop years. Therefore we also concur in the recommendation of the Commission of Inquiry that consideration be given to the elimination from eligibility for payment of awards of marginal land on which crop failures continuously occur from year to year and which apparently only remain in production by reason of the benefits available under the P.F.A.A. program.

Section 6(a) of the Act provides that a section of land or blocks of sections, having a side along the boundary of an eligible township, may be eligible for assistance as long as the average yield of wheat within such area is eight bushels or less per acre. For 1962 a policy was introduced whereby a section or a block of sections need touch eligible townships only corner-to-corner. While it is difficult to estimate the total amount paid in respect of areas receiving awards due to this policy in 1962, a test involving only a small number of townships revealed payments of approximately \$10,000. The policy was not continued in 1963.

In the 1963-64 crop year there were 288 townships eligible for assistance in the Alberta Division on the basis of the predominant crop being a coarse grain. In field inspections, great emphasis is placed on measurement of wheat storage facilities in order to verify the quantity of wheat on hand and the current year's wheat production. We were, however, informed that, as a general rule, the stocks of coarse grain on hand were not measured nor were the sales of coarse grain to date of inspection established by reference to Wheat Board permit books. One of the reasons advanced for this course of action was that in many cases considerable quantities of coarse grain had been used as feed so that it was not possible for an inspector to verify the yield with any degree of accuracy.

Existence areas of southern Alberta are irrigated and many farmers grow wheat on both irrigated and non-irrigated portions of their farms. In accordance with the Act, the irrigated areas are excluded for purposes of determination of average yields if the yield of the irrigated portions exceeds 12 bushels per acre. In reviewing the Cultivated Acreage Reports, it was observed that often little or no yield was reported on large acreages of non-irrigated land so that the relative township or townships became eligible for awards. It is not possible to verify information supplied by farmers with respect to the yield of wheat on the non-irrigated portion of those farms where crops from both irrigated and non-irrigated areas are stored in the same bins. A similar situation prevails where farmers operate farms situated in two or more townships.

Section 7 of the Act requires every award under the Act to be paid in the month of December. In northern areas of Manitoba, Saskatchewan and Alberta and the Peace River District of British Columbia, harvesting is seldom completed before mid-October and sometimes November. As a consequence, it is difficult for inspectors to complete Cultivated Acreage Reports within the time available. Since the information compiled from these reports must be examined by the Board of Review before eligibility is determined and cheques processed, only a portion of the awards can be paid during December. It was observed that most of the awards are usually paid during the month of January and February and the balance in the following three months. It being impossible to comply with this section of the Act, consideration should be given to its repeal.

Paragraph 46 can be marked forward to 1965 because it appears in that report, but just before you leave it may I say to you that this paragraph involves a number of points which require remedial action and particularly when you consider it in 1965, you might feel that you would wish to have a witness present, possibly somebody from Regina, which is the headquarters of the operations of P.F.A.A., because I believe he could make a useful explanation on what action you can expect from the points that are made. In 1965 we bring most of these points forward again, and others also. I do not know whether that would commend itself but I just mention it in passing in case you wanted to arrange it. I think someone from Regina would probably have to be summoned in this case rather than the Deputy Minister of Agriculture.

The CHAIRMAN: I would ask the western members of our committee to pay particular attention to this paragraph, study it and be prepared to ask questions when it comes up under the 1965 report. Now maybe Mr. Bigg should—

Mr. BIGG: Mr. Chairman, I would like to make that a motion to cover what Mr. Henderson has said, if that is necessary, because I think that is a very important paragraph.

The CHAIRMAN: Your steering committee will study that. Thank you Mr. Bigg.

Mr. WINCH: To add to that perhaps Mr. Henderson might be a bit more specific. I was very much concerned in going over the 1964 report—

The CHAIRMAN: Mr. Winch, this is going to be brought up in the 1965 report so if you do not—

Mr. HENDERSON: This is in the 1965 category, so if you just want to mark it off—

Mr. WINCH: I would just take note of the last two sentences in the last paragraph on page 17 that no minutes are kept of policies or—

The CHAIRMAN: Mr. Winch, this is carried forward to the 1965 report so just save those remarks, if you do not mind, and we will do it then.

Mr. HENDERSON: 47. *Misapplication of public funds at Indian Agency.* In 1963 the Department of Citizenship and Immigration discovered sizeable misapplications of public funds at one of the Indian Agencies. Investigations established that during the period June 1, 1960 to December 31, 1962 an estimated \$70,000 was diverted by the superintendent of the Agency from welfare assistance to Indians in the form of cash relief, fuel wood and a community employment program to projects and activities not authorized by the Department. In addition, approved limits of expenditure on various authorized activities were deliberately exceeded.

The superintendent did not always agree with the Department's decisions relating to expenditures for the benefit of Indians and he disregarded departmental regulations and directions and financed unauthorized activities by diverting funds from authorized programs. He and his assistant admitted they had forged endorsements on cheques in order to use them, but they maintained that all expenditures were for the benefit of the Indians and denied that they had converted any funds to their personal use. In the absence of proof that funds were used by the superintendent or his assistant personally, the Department was unable to establish that any amount was owing to the Crown.

The superintendent was suspended from duty on May 15, 1963 and the assistant superintendent on September 1, 1963. It is understood that legal action is to be taken under section 92 (d) of the Financial Administration Act and under section 311 of the Criminal Code of Canada.

Paragraph 47, misapplication of public funds at Indian Agency applies exclusively in 1964. This case deals with misapplication of public funds by one of the Indian agencies which led to the suspension of the superintendent and the assistant superintendent from duty in 1963. Although legal action was, I believe, taken under Section 92(d) of the Financial Administration Act, and also under Section 311 of the Criminal Code of Canada, members of the committee may recall that the actions of the government in prosecuting these men was widely criticized in the press and on television last year. It was claimed, among other things, that the latitude given to the superintendent to assist the Indian Community was not realistic and he should not have been dealt with so severely for using his own initiative in the interests of the Indians instead of following instructions.

I do not know, Mr. Chairman, what views the Committee might have on this. It is one of those cases which I am required to bring to your attention, and I suppose it is a matter now being concluded so there is not a great deal that this Committee can do about it.

Mr. BIGG: It was settled by the courts.

The CHAIRMAN: Mr. Henderson has brought this matter before the Committee and I would say that I sat on that special committee on Indian Affairs of the Senate and the House of Commons during three sessions of Parliament and

I would agree with the information given us by Mr. Henderson that lacking specific instructions the conduct of this particular official of the Indian Affairs branch, or of any official of the Indian Affairs branch, should be reviewed with the greatest sympathy, because if there is any group of people who are called upon to use their own judgment and to fit the regulations into the problems of each separate Indian reservation these Indian officials are the people who really are up against it. I think the greatest care should be taken in condemning them and making sure that there was actual wrongdoing rather than a matter of maybe wrong judgment being used, which is entirely different from criminal action.

Mr. HENDERSON:

48. *Payment for loss of salary pending appointment to a position in the civil service.* It is provided in section 71 (3) of the Civil Service Act that a person who, for at least three years, has held the position of Executive Assistant to a Minister or the position of Private Secretary to a Minister, is entitled to be appointed to a position in the civil service for which the person is qualified, not being lower than the position of head clerk. The Act is silent as to the person's entitlement if no position is available.

A case was noted where the former private secretary of an ex-Minister became available for such a position on July 1, 1963 but the Civil Service Commission was unable to provide employment until February 20, 1964. The Civil Service Commission requested Treasury Board to recommend an ex gratia payment in the amount of one-half of the salary the former private secretary would have received had she been employed from July 1st until the resumption of her employment in the public service at the maximum rate of head clerk. Payment on an ex gratia basis was authorized by Order in Council P.C. 1963-8-1730 of November 28, 1963 and the expenditure of \$1,979 was charged to Civil Service Commission Vote 1, 1963-64.

In order to provide for the benefits pursuant to continuity of employment, the Civil Service Commission drafted a regulation under section 68 of the Civil Service Act covering the period July 1, 1963 to February 19, 1964 during which the former secretary was out of employment. This regulation was approved by Order in Council P.C. 1964-6/490 of April 10, 1964.

Paragraph 48 covers payment for loss of salary pending appointment to a position in the civil service. This again is exclusively a 1964 matter.

This is the case of a person who, as you see, for at least three years had filled a position of private secretary to a minister and who, under Section 71(3) of the Civil Service Act, was entitled to be appointed to a position in the civil service for which the person is qualified, such position not being more than that of head clerk. In view of the fact that the Commission was unable to provide employment in the manner contemplated by this section during the period July 1, 1963, to February 20, 1964, this former private secretary received an ex gratia payment in the amount of one half of the salary she would have received had she been employed in the public service during that period at the maximum rate of head clerk.

Now you will note here, as I point out, that the Civil Service Act is silent as to such a person's entitlement if no position is available, and this was the situation in the case described here.

You may feel that as and when the Civil Service Act is changed, steps should be taken to provide that such an appointment may be made only if a position is in fact available at the time the person is eligible for re-employment.

The CHAIRMAN: Are there no questions?

Mr. HENDERSON:

49. *Defalcation by locally-engaged employee in Canberra, Australia.* A defalcation by a locally-engaged accountant employed by the Canadian Mission in Canberra, Australia, first came to light in January 1963 when a supplier requested from the High Commissioner payment of a long outstanding account for gasoline. Investigation by officers of the Mission and by a local auditor engaged for the purpose, together with a confession by the employee involved, disclosed not only misappropriation of payments made to the employee for gasoline purchased by Canadian personnel, but also other defalcations involving many aspects of the accounting activities, both as regards revenues and expenditures.

The Chief Treasury Officer in the Department of External Affairs was dispatched to Canberra to complete the investigation and he reported a total defalcation of \$13,589 over a period of four years. As well as misappropriating payments for gasoline amounting to \$1,533, the employee had stolen \$9,636 received from prospective immigrants to cover costs of air mailing documents to Canada for examination, \$888 representing income tax deducted from salaries of local employees, and \$1,532 by means of various other frauds. Of the total of \$13,589 reported stolen, \$7,053 was recovered from the employee and \$6,536 is to be charged to the Public Officers Guarantee Account. The direct cost of investigating this defalcation was approximately \$6,000 to which might be added indirect costs of \$6,000.

Our review of the various reports received by the Department dealing with the circumstances of this defalcation shows that it went undetected so long largely because of inadequate supervision of the accountant's work in the Mission coupled with a lack of attention by Mission officers to queries from Ottawa on its accounts and to routine financial matters. Weaknesses in the departmental system of internal financial control and neglect in Ottawa to follow up observations raised by Treasury officers were also contributing factors.

The Department dispatches inspection teams periodically to embassies and missions. The last visit to this Mission was in October 1961 when it was reported that there appeared to be no major problems regarding financial administration. At that time the Mission accountant advised the inspection team that departmental and Treasury observations on his monthly accounts were few whereas in fact they were numerous and serious.

The scope of work of the Audit Officers in the past has not embraced surprise audits of embassies and missions abroad for the reason that paid cheques, receipted vouchers and related supporting material are dispatched to the Department in Ottawa for checking and audit. We are discussing this procedure with the officials concerned and are reviewing the Department's system of internal financial control.

I suggest we put forward paragraph 49 to 1965, where we deal with the same subject.

50. *Government contributions not made to the Public Service Superannuation Account.* As was the case in the three previous years, no special credits were made to the Public Service Superannuation Account in 1963-64 in respect of salary increases granted to civil service classes as the result of cyclical salary reviews, although subsection (2) of section 32 of the Public Service Superannuation Act, 1952-53, c. 47, reads:

There shall be credited to the Superannuation Account, as soon as possible following the authorization of any salary increase of general application to the Public Service, such amount as, in the opinion of the Minister, is necessary to provide for the increase in the cost to Her Majesty in right of Canada of the benefits payable under this Act, as a result of such salary increase.

We were informed that the reason no such special credits were made to the Account as required by section 32 was that the salary increases granted in 1963-64 were not regarded as increases "of general application".

On March 6, 1964 the Minister of Finance outlined in the House of Commons a general policy for dealing with deficiencies in the various superannuation accounts. The Minister stated that the deficiencies existing prior to the commencement of the 1963-64 fiscal year would be written off to net debt, deficiencies created by general pay increases made in that year which the law requires to be charged to that year's expenditure would be so charged, and that deficiencies arising from pay increases during the year which were not general in scope would be charged to expenditures over a five-year period commencing in 1964-65. The Minister further stated that in future the deficiencies arising from pay increases, whether of a general or cyclical character or otherwise, would be charged against expenditures over a five-year period commencing in the year in which the increases are authorized.

When announcing the implementation of this policy on November 12, 1964 the Minister stated that authority would be sought from Parliament during the year to write off to net debt a deficiency in the Public Service Superannuation Account as at December 31, 1962 of \$110,536,000 plus interest and to charge the deficiencies arising from pay increases authorized during the fiscal years 1963-64 and 1964-65 against expenditures over a five-year period commencing with 1964-65 (see paragraph 123 of this Report).

It has been calculated by the Department of Insurance that the deficiency in the Account as at December 31, 1962 plus interest to December 31, 1964 will amount to \$119,556,000 and that the additional deficiency arising from pay increases authorized in 1963-64, with interest to December 31, 1964, will amount to \$30,506,000.

Paragraph 50, I would suggest, might be put forward to 1965.

51. *Errors in Public Service Superannuation Account pension and contribution calculations.* Comments under this heading have appeared in our Reports to the House for the past three fiscal years. The Public Accounts Committee in its Fourth Report 1963 noted with concern the high incidence of error in the superannuation accounts, and in its Sixth Report 1964 (see Appendix 1, item 33) expressed concern that this matter is taking so long to be corrected and requested the Auditor General to keep the Committee fully informed.

The responsibility for the operation of the Superannuation Branch was transferred in December 1963 from the general direction of the Secretary of the Treasury Board to the Comptroller of the Treasury, the Director of Pensions and Social Insurance of the Department of Finance retaining responsibility for dealing with cases requiring legal opinions and decisions regarding superannuation policy.

On assuming this responsibility, the Comptroller of the Treasury appointed a task force to study the organizational structure of the Branch and review its existing system and procedures in depth to determine what steps should be taken toward eliminating the errors occurring in the pension and contribution calculations. He advises that following receipt of the task force's report, a series of staff meetings were held to discuss its recommendations and that a number of significant measures designed to remedy this situation have been or are in the course of being introduced.

There has been some reduction in the number of errors we have had to bring to the attention of the officers of the Branch during the past year. However, in our opinion, the incidence of error continues to be higher than it should be in an administrative operation of this type.

A reference was made in paragraph 53 of last year's Report to the lack of verification of the correctness of contributions remitted to the Central Pay Division in respect of employees of Crown corporations. We have been advised that action is being taken to correct this situation.

Paragraph No. 51 I would suggest might be put forward to 1965.

52. *Deletion of debt without collection effort.* In August 1963 it was discovered that pension payments at a rate in excess of the limit fixed by the Public Service Pension Adjustment Act were being made to a pensioner. The resulting debt was deleted from the accounts by Executive order made pursuant to section 23(1) of the Financial Administration Act.

Although the amount involved was small, the action was taken without the pensioner being informed of the overpayment or any effort being made to recover the debt. In the interest of effective internal financial control, we believe that in no case should a debt due to the Crown be recommended for deletion unless every effort has been made to collect.

Paragraph 52 applies exclusively in 1964—that is deletion of a debt without collection effort.

Our concern in this case stems partly from the fact that no attempt was made by the superannuation branch to recover the overpayment of pension. The branch has admitted that the mistake has been entirely theirs, stating that the salary from the pensioner who was over 82 years of age would probably constitute financial hardship to her. The branch advised they were not aware of her financial circumstances apart from the fact they presumed she would be in receipt of the old age pension as well as superannuation allowance. However, in view of her age they expressed reluctance to make inquiries unless the Treasury Board needed such information.

Our view here is that regardless of the circumstances of individual cases or the manner in which inquiries are undertaken to satisfy the collection effort, the

Committee might perhaps share our view that in no case should a debt due to the Crown be recommended to the Treasury Board and to the Governor in Council for deletion unless the person is aware of the debt and every effort is made to collect it. The Committee might care, it seems to me in this case, to note its concern that an account could so easily be written off under the circumstances that are described here.

Mr. BALDWIN: Mr. Chairman, may I ask a question on that? There are circumstances in this case, of course, where it might be obvious that the government would not like to proceed, but would Mr. Henderson feel that something could be done in the line of a certificate to be attached by the appropriate official of the government to the effect—or is this already required—that there has been an effort made to collect and that the official certifies under all the circumstances involved a decision has been made not to proceed for certain reasons? In other words the onus should lie upon the government, before it abandons any debt of any kind, to attach a certificate, and under that certificate the government then takes the responsibility for its forgiveness of the debt. Now is this required under Section 23 of the Financial Administration Act at the present time?

Mr. HENDERSON: No, I do not think it is actually required, Mr. Baldwin, but I could not agree with you more, that if such a statement were put into the files and were seen by us that it would remove any doubt in our minds that adequate steps have not been taken to look into the matter before action was taken to write it off. It seems to me it is an elemental principle of internal financial control.

Mr. BIGG: Sometimes the cost of straightening this thing out in a cumbersome legal manner might be a great deal more of a burden on the Crown than the small debt involved. I think in terms, say, of an old age pension where there is a typographical error in the cheque the old person thinks that if they got it in time they may get \$10 more on their cheque. Now they can barely live on this \$75—this money is spent maybe at Christmas time and then you write to them and ask them to refund this, which means that some time during the year they have to try to live on \$65 a month. I think that here there should be some ministerial discretion and as long as the thing is covered by a proper declaration by the department or something to show that it is not arbitrary—

Mr. HENDERSON: Well I agree with you completely, Mr. Bigg. If something like that had been placed in the file with a memorandum from the person in charge indicating that they are fully aware of the circumstances, but in view of these circumstances they had decided not to press it and accordingly to proceed, that would have met our point.

● (11:50 a.m.)

Mr. WINCH: I would like to know from Mr. Henderson why it disturbs him in any way whatsoever in view of the fact that: "The resulting debt was deleted from the accounts by Executive order made pursuant to Section 23(1) of the Financial Administration Act." As the action was taken pursuant to regular authority to be followed through by executive order what is the particular reason for writing down this case as it was done pursuant to authority?

Mr. LONG: That is a good question to ask here. There is no question about the authority being adequate. What worries us here is that this was a mistake made in the superannuation branch. The lady who benefited from the mistake was never told that a mistake had been made. She does not know to this day that she has been overpaid—at least officially she does not. But how as auditors are we to know that in fact somebody did not collect that from her and did not turn it in? The file was completely silent. No approach had been made to her and she knows nothing about what Treasury Board did on her behalf, and this opens the whole thing up. Some unscrupulous clerk could write her a letter—if she is the type of person who does not want to be overpaid, who wants to be sure that anything that she owes is paid—collect the money and put it in his pocket. Nobody would know.

Mr. WINCH: But how could an unscrupulous clerk, you said—I am using your words—send that letter in view of the fact that by executive order certain action was taken to ensure that she did not owe any money?

Mr. LONG: Well, of course, he should not send such a letter but, then, anything a person of that sort does, along that line, is wrong.

Mr. CARTER: If it is established by executive order that the debt could be a mistake and could be wiped out, would that not lead to some abuse? I know of a case, for instance, of a veteran who collected \$9,000. Nobody collects \$9,000 without knowing that there is some error, and he did not draw it to anybody's attention. Eventually, he tried to have it wiped out and it was wiped out by executive order. I am just afraid that if this is established like that, it will lead to some abuse because some employee could, as you say, be using a dead file, issue an executive order that this is wiped out. Who knows who got the money?

Mr. LEFEBVRE: I think Mr. Carter has brought up a very good point. Whether the sum is \$50, \$5 or \$9,000, the duty of the Auditor General, as I see it, is to make sure that the accounts are in order. We all feel the same way about the aged people. They need every cent they can get their hands on to live but that does not take any responsibility away from the office of the Auditor General. His job is to see that the books are kept the way they should be and another department will look after whether the money should be allowed to remain in the hands of those who are receiving it or not. This is the way I see it. Maybe, Mr. Henderson could add to that.

Mr. WINCH: That is my very point. The books must be in order because by executive order under section 23, clause 1, this is wiped out.

Mr. HENDERSON: As Mr. Long explained we went back, behind the circumstance. This originated as a mistake on the part of the Superannuation Branch and, in checking the case through, it became apparent to us that if the executive order could be issued with the ease with which this one was issued, that is to say without any memorandum being on file, attesting to, as I think Mr. Bigg outlined, the circumstances, then, in fact, a person like this might, perhaps, have become aware of it and could possibly have tendered a cheque in her desire to square the books, and that cheque could have been manipulated by an unscrupulous person. This has happened before in these cases. That is why I say it is an elemental facet of internal financial control.

Mr. WINCH: Just one further question. With this executive order which wipes this mistake out, is it then conveyed and shown on the books to you, as an auditor, that this is wiped out by an executive order, therefore, there is no balance charged against that person?

Mr. HENDERSON: That is right. This wipes out the debt.

Mr. WINCH: It wipes it out and it is shown on the books that you see?

Mr. HENDERSON: Oh, yes.

Mr. WINCH: So, what you are going after is behind that, to see whether or not the executive order, should have been issued on the basis of information which you have on file, is that what you are after?

Mr. LEFEBVRE: Together with the information you received on why this executive order was given. Is this correct?

Mr. HENDERSON: That is right.

The CHAIRMAN: May I ask Mr. Long or Mr. Henderson, whether this Department has an accounts receivable ledger where this sort of thing would appear?

Mr. G. R. LONG (*A/Assistant Auditor General, Auditor General's Office*): It would just be in the file. They do establish accounts receivable lists. This would no longer be on the list now but the file would be there among the dormant files. As a matter of fact, she is still receiving an annuity so the file would be continuing.

The CHAIRMAN: Is there an accounts receivable file with the department?

Mr. LONG: The notation of the over payment would be on the file. It is not included in a balance of accounts receivable owing to the Government of Canada.

Mr. WINCH: That is the very point, sir, that I was trying to get at. After the executive order was issued, am I right in coming to the conclusion that there would be nothing on her account as an account receivable because it had been wiped out by the executive order?

Mr. HENDERSON: That is right.

Mr. WINCH: It would no longer show as an accounts receivable?

Mr. LONG: The file would still contain information that an overpayment had been made.

Mr. WINCH: But it would not show as an accounts receivable?

Mr. LONG: No.

Mr. BALDWIN: Am I correct, Mr. Henderson, in assuming that Parliament does have some measure of ultimate control because, under the Financial Administration Act, if these accounts, which are wiped out when a deletion is made, are above a certain amount, they must be reported in the public accounts, of course, and can always be the subject of discussion when the estimates of the Department come out. If, for example, there were a sum of half a million dollars of income tax or something similar where there had been a discharge or wiping out of part of that, the members of the House have an opportunity of discussing

it in committee. However, if you have an amount less than the amount stipulated under the Financial Administration Act—and this is not necessarily the case—the details are not available, the only way in which the House can exercise its financial control over the government is for you to call attention to it and refer to it in your report, Mr. Henderson.

Mr. HENDERSON: There is information furnished in the public accounts on this. I think Mr. Long is looking for the reference.

The CHAIRMAN: While Mr. Long is looking for the reference may I point out we have two chartered accountants on our Committee, I think, Mr. Leblanc and Mr. Ballard. This is very interesting for you people, I am sure.

Mr. HENDERSON: May I point out to Mr. Ballard and to Mr. Leblanc that there are no accounts receivable ledgers, as such, here. You are dealing with files. Therefore, the absence of these is another subject we will come to in the report. It is something which has always disturbed me because it leaves an area, in which accounts can be tampered with. We are dealing here essentially with files, so it underscores, as I see it, the importance of closing up every avenue of internal control.

Mr. LONG: The Financial Administration Act requires that accounts deleted be reported by department. This particular account does show up because it was the only one for the Department of Finance that was deleted by authority of the Governor in Council. On the other hand, there were 189 accounts deleted under ministerial authority, amounting to \$6,000. There would be no indication here that there was anything peculiar about this or about any individual account.

The CHAIRMAN: If there had been more than one in that Department, it would not have shown up?

Mr. LONG: No, you would not have seen the individual amount.

Mr. CAMERON (*High Park*): I do not want to make a case about it. I agree with Mr. Baldwin in the idea of a certificate and I understand that the Auditor General agrees with that, in principle, but it seems to me that you have a conflict between the Auditor General and the executive order here. Someone might properly say to Mr. Henderson: "You are trespassing on a field that you have no authority to trespass upon because, by executive order, this has been wiped out and you should not be going into it." It appears to me that if you adopt a certificate, then the certificate should contain some synopsis of the evidence on which the executive order, pursuant to section 23 (1) was made so that the Auditor, in investigating, can say: "I have checked the certificate—the basis on which it is made—and I found it to be in order". If he finds there is something that goes beyond what, he thinks should have been done, then he can make his comments on the report. Perhaps I am wrong in my summing up of the situation but that is the way it appears to me.

Mr. HENDERSON: I would express the hope, if I may Mr. Chairman, after listening to Mr. Cameron's question, that the Committee would share our view that in no case should a debt due to the Crown be recommended to the Treasury Board and to the Governor in Council for deletion unless the person is aware of the debt and every effort has been made to collect it.

Mr. CAMERON (*High Park*): I do not think we are giving it to you. I understand that is what you want and I do not see that we are giving it to you.

The CHAIRMAN: Mr. Cameron, I think when we write our report, we will have this before the Committee. The Committee approves of it and in our report we will recommend that this very thing you suggest be given to Mr. Henderson.

Mr. LEBLANC: Will that mean that you will be obliged to amend section 23 (1) to make it more concise?

Mr. LONG: There is no problem with the authority and there is no problem with what the Treasury Board and the Governor in Council did. This is quite in order.

Mr. LEBLANC: I understand that. They did exactly what they could do in accordance with that section. So, legally, they are on the right side. But then, if you go further and say that no account should be deleted unless that amount is recovered—which, in that case, they did not do—or if section 23 authorizes them to delete the account, it may authorize them to delete it after having tried to recover the amount, then that would mean an amendment to the Act, would it not?

Mr. HENDERSON: I think it is important for the Auditor, in these circumstances, to examine the files to be satisfied that proper steps were taken toward a collection effort before this executive action took place. We do that in all the cases where we can. Here is a case where we found debt had been written off very easily for perfectly sensible reasons.

● (12:05 p.m.)

The CHAIRMAN: I think, gentlemen, we will be able to discuss this more fully when we are under the chapter on "accounts receivable". Am I right, Mr. Henderson?

Mr. HENDERSON: Indeed. That, to me, is quite important because of the point I made earlier.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, before we go on from there, I think we should be a little bit careful about it for this reason: there is a special circumstance, it has been said, surrounding some elderly person who does not know the law and whom it might be very harsh to even acquaint with the fact that there has been an over payment. I am a little afraid of this effort to collect. If there is some way by which the interests of the government and of the public can be protected without hurting the sensibilities of some people, if, in the interests of the Governor in Council, it is felt that they should not be so interfered with, then I think we should be careful to give that due consideration.

Mr. HENDERSON: I think you will appreciate it is only the principle that I am concerned with here and, under no circumstances, the particular case. I think it is a valid one and a proper one to be raised.

Mr. THOMAS (*Middlesex West*): I agree with Mr. Henderson on that. There is a matter of principle involved. I was throwing out a word of caution. As far as I am concerned, it appears to me there might be a danger of harshness in dealing with some cases.

The CHAIRMAN: Paragraph 53, Mr. Henderson.

Mr. HENDERSON: The subsidization of Fishermen's Indemnity Plan, I would suggest that be put forward to 1965 as we deal with the same subject there.

53. *Subsidization of Fishermen's Indemnity Plan.* During the year under review \$197,000 was appropriated to meet the 1963-64 deficits arising in connection with the operations of the Fishermen's Indemnity Plan, of which \$29,000 was required by the Lobster Trap Indemnity Account and \$168,000 by the Fishing Vessel Indemnity Account.

The Plan, which was introduced in 1953-54 and is intended to be self-supporting except for its administrative costs, provides insurance to assist small-scale fishermen in meeting losses incurred in respect of lobster traps and fishing vessels. In the case of the lobster traps, premiums are assessed on the basis of the value category into which the established average appraised value per trap falls, or at a lower prescribed premium rate at the option of the fisherman. Indemnity is limited to those traps which cannot be recovered, or have been damaged beyond repair, in excess of percentages of the total number of traps on which a premium has been paid—depending on the fishing districts involved—which the indemnity per trap being substantially less than the established appraised value per trap used for the determination of premium. For a fishing vessel, the premium basis is one per cent of the appraised value of the vessel, to a maximum of \$12,500, and indemnity is regulated by formulae covering total or partial loss and whether the vessel is operated on the eastern or western seaboard.

The legislation provides that the Accounts may be charged with indemnity payments and credited with premium income with the debit balance not to exceed \$150,000 at any time in accordance with regulations of the Governor in Council. Administrative expenses amounting to \$2,251,000 since the inception of the Plan to March 31, 1964 have been met through parliamentary appropriations and are therefore not taken into account in determining premium rates. Notwithstanding this, both of the Accounts within the Plan have recorded net deficits from their introduction to March 31, 1964. The Lobster Trap Indemnity Account has consistently been in a deficit position, the accumulated deficits having aggregated \$662,000. The Fishing Vessel Indemnity Account, although producing surpluses during four fiscal years, most recently in 1960-61, showed a net deficit of \$300,000 to the close of the year under review.

We have discussed the circumstances surrounding the financial results of the operation of the Plan with officials of the Department of Fisheries. In the case of the Lobster Trap Indemnity Account, they have explained that deficits of \$94,000 and \$153,000 in 1961-62 and 1962-63 respectively were due to an increasing concentration of policyholders operating in a winter lobster fishing area of Nova Scotia where heavy seas are almost a daily occurrence, and the fact that insured fishermen tended to extend their operations into the most vulnerable locations, with the result that it had been difficult for the Department to provide adequate surveillance. Steps have been taken to meet the situation through the adoption of improved administrative procedures and by an amendment to the regulations early in 1964, in line with loss experience, to increase the amount deducted for "normal" loss in the calculation of indemnity.

With respect to the Fishing Vessel Indemnity Account, abnormal weather conditions in most of the fishing areas have been reflected by heavy deficits over the past two years as compared with a satisfactory experience in prior years. The Department is presently engaged in a detailed study to ascertain the extent to which factors other than weather may have been operative during this period so as to determine what further changes in the regulations are practical or to what extent the premium rates should be revised.

Paragraph 54 deals with the winter house building program. Here is a case where the Minister of Labour announced, in the House, on March 26, 1964, that because the success of this program had led to shortages in labour and materials. As the substantial volume of housing construction reached the final stages, the incentive payment would be denied to some builders whose dwellings would otherwise have been substantially completed by March 31, and therefore the date of final inspection under this program, as I say here, was extended from March 31 to April 15, 1964. This, however, was contrary to Department of Labour Vote 34d which was quite specific in limiting it to March 31.

Now I can point out to the Committee that the Minister of Labour, on March 23, 1965, announced in the House that the period for completion of the 1964/65 winter program was again being extended to April 15, 1965, and the Minister added that it is the government's intention to place before the House an item in the supplementary estimates for the fiscal year 1965/66 to authorize the extension of the program. This is what happened and, therefore, I would say, the action of the Minister in taking the following year in this way would, doubtless, commend itself to members of the Committee. That is the point I raised by putting the extension in supplementary estimates for the House.

54. *Winter house building program.* Department of Labour Vote 34d in the amount of \$20 million authorized payments, in accordance with terms and conditions approved by the Governor in Council under the winter house building program, of \$500 per dwelling unit substantially built during the period December 1, 1963 to March 31, 1964.

To establish that a dwelling unit was one on which the incentive could be paid and which was substantially built within the period specified in the legislation required that it be subject to inspection, first, at or near its initial stage of construction on or after December 1, 1963, and finally prior to or about March 31, 1964. These inspections were made on behalf of the Department by the Central Mortgage and Housing Corporation.

On March 26, 1964 the Minister announced in the House of Commons that because the success of the program had led to shortages in labour and materials as the substantial volume of housing construction reached the final stages, the incentive payment would be denied to some builders whose dwellings would otherwise have been substantially completed by March 31, and therefore the date of final inspection under this program was being extended from March 31 to April 15, 1964.

The effect of this would seem to be that some dwelling units that were not substantially built on or before March 31, 1964 would be regarded as qualifying for an incentive bonus and therefore the extension of the time for final inspection required the approval of Parliament.

Mr. WINCH: May I suggest that the steering committee take under advisement this matter of the calling of a representative from Central Mortgage and Housing Corporation. There are certain aspects of this matter which pass my comprehension. What are contractors doing in writing contracts saying they will allow the winter works program after the winter works is through? I would like to have a clear explanation. Perhaps the steering committee might consider calling such a representative?

The CHAIRMAN: A note is made of that.

Mr. HENDERSON:

55. *Questionable charge to Vote 70 of the Department of Mines and Technical Surveys.* During the first three months of 1964 a hydrographic vessel operated by the Department of Mines and Technical Surveys assisted the Royal Navy in charting safer shipping channels in the Caribbean Sea. The costs of Canada's operation, which were estimated to be \$75,000 in excess of what overhead costs would have been if the vessel had remained in her normal winter lay-up condition, were charged to the appropriation (Vote 70) provided for the administration, operation and maintenance of the Department's Marine Sciences Branch.

It is understood that Canada's participation in this project provided valuable staff training for departmental personnel and also an opportunity to return service in kind to the Royal Navy which originally charted Canadian coastal waters.

In our view, however, it is questionable whether such an undertaking falls within the ambit of the Department's responsibilities as laid down by the Department of Mines and Technical Surveys Act, R.S., c. 73.

Paragraph 55. *Questionable charge to Vote 70 of the Department of Mines and Technical Surveys.* This is exclusively a 1964 item. It is questionable, in our view, whether the undertaking described here fell within the ambit of the responsibilities of the Department of Mines and Technical Surveys as laid down in its Act. The cost of \$75,000, as I say here, was charged to Vote 70, providing for the administration, operation and maintenance of the Department's Marine Sciences Branch without any reference to the possible inclusion therein of these particular expenses. A similar program was carried out in 1965-66 and parliament approved of charging the costs to the departmental appropriation by passing a dollar item, vote 15d.

It is one of the specific duties of the Auditor General, as set out in the Financial Administration Act, to call attention in his report to any appropriation applied to a purpose not authorized by parliament. All I have to say here, Mr. Chairman, is that it would be helpful if the Committee were prepared to express its concern that expenditures should be incurred as charges to an appropriation to which they are not normally related.

The CHAIRMAN: Any questions on that? It will not appear again in 1965.

Mr. HENDERSON: It is a rather basic point, as far as our operations are concerned, but we always have to watch for this; that is to say, see that they are charged to the right appropriation.

The CHAIRMAN: Number 56.

Mr. HENDERSON:

56. *National Defence administrative regulations and practices.* The Public Accounts Committee in its Sixth Report 1964 expressed its pleasure that appropriate changes had been or were in the process of being made in each of the Armed Forces administrative regulations which had been commented on in our 1963 Report. The Committee requested the Auditor General to inform the House of Commons of any case where the changes appear to be inadequate or where abuse and waste of public funds develop (see Appendix 1, item 22). The following paragraphs give brief outlines of the matters which remained uncorrected during the year under review and of several similar matters coming to our attention during the year.

1. **RELEASE FROM SERVICE THROUGH PURCHASE**—In the 1963 Report (paragraph 64 (2)) it was noted that while the Air Force and the Navy required the payment of money for “other ranks” to obtain release on request, the Army had not done so since 1950. While the Department expected that the practice would be reinstituted with respect to the Army, orders giving effect to this have not yet been promulgated.
2. **REMOVAL EXPENSES—MOBILE HOMES.**—In the 1963 Report (paragraph 64(3)) it was observed that although new instructions were being issued to deal with the situation, it would seem appropriate that the regulations also be amended to include specific directions with respect to the movement of mobile homes and their contents. The new instructions referred to were issued in the fall of 1963 and the Department decided that a year’s experience would be required to assess their effectiveness. Based on experience gained in the trial period, new regulations are now being prepared.
3. **EXCESSIVE PAYMENTS FOR TRAVEL ON TRANSFER.**—Servicemen are permitted by the regulations to use their personally-owned automobiles to transport themselves and their dependents to new places of duty and are entitled to claim mileage allowances to cover transportation, meals and accommodation expenses based on direct road mileage at various rates, formulated on the basis of a Service member travelling 300 miles per day. The regulations also provide reimbursement of the cost of meals and accommodation at destination during the period the serviceman is awaiting the arrival of his furniture and effects or while arranging permanent accommodation. In the course of audit it was noted that Service Orders presently permit the payment of both allowances in cases where moves of less than 300 miles are completed in one day. As a result, the entitlement for meals and accommodation is in effect duplicated and the cost becomes excessive. A restrictive instruction is now under consideration by the Department.
4. **UNECONOMICAL MODE OF TRANSPORTATION.**—Under present regulations members on duty travel may at the discretion of the Commanding Officers use their motor cars for their own convenience. In the audit, instances were observed where two or more members of the same unit travelled to the same destination for the same purpose, each member being allowed to use his own car and receive the applicable

mileage allowance. For example, five Army members travelled singly from Calgary, Alberta, to Meaford, Ontario, and return, each using his motor car and claiming the mileage allowances provided for by the regulations. Had they travelled as a group by rail, a saving of some \$400 would have been effected. When this matter was brought to the attention of the Department, instructions were issued to assist Commanding Officers to determine whether approval should be granted servicemen to use personally-owned motor cars for their own convenience on duty travel.

National Defence administrative regulations and practices. This note can go forward to 1965 but I would like to place on the record that two of the four items included in this note have since been satisfactorily cleared up. The first one is item one: Release from service through purchase. In April, 1965, the acting chief of personnel directed that release by purchase be reinstituted in the Canadian army and the practice is now uniform throughout the service.

Item three: Excessive payments for travel on transfer. By an order promulgated in December, 1964, the entitlement to two allowances simultaneously for meals and accommodation under the circumstances described in the note was removed. We will, of course, be discussing, as I say, this total subject in the 1965 report.

The CHAIRMAN: Paragraph 57.

Mr. HENDERSON:

57. *Lease termination payments.* The Public Accounts Committee has been recommending since 1960 that the maximum term for lease termination payments to servicemen be reduced from three months' rent as presently permitted to the equivalent of one month's rent. Following the recommendation contained in its Fifth Report 1961, the Department amended the regulations to provide for discretionary powers to be exercised in dealing with individual cases, but it did not go as far as to reduce the maximum period from three months to one month.

In its Sixth Report 1964 the Public Accounts Committee expressed the opinion that the present regulation permitting payment of three months' rent is too susceptible to abuse and results in a waste of public funds. The Committee again recommended that the regulations be changed to reduce the maximum period to one month, but as it does not wish to see servicemen penalized, it further recommended that there be a proviso that payment up to three months may be made in cases of hardship, provided such cases are approved by the Deputy Minister (see Appendix 1, item 23). We have been informed that the matter is currently under review by the Department.

Lease termination payments. This is a matter on which your Committee has been making recommendations since 1960. As stated here in its Sixth Report 1964, the Committee recommended that the regulation be changed to reduce the maximum period of lease termination payment to one month, but as it does not wish to see servicemen penalized, it made the further recommendation that there be a proviso that payment up to three months may be made in cases of hardship, providing such cases are approved by the Deputy Minister. I am pleased to advise the Committee that this matter, although it has

been under review by the Department of National Defence for a long time, is now being settled.

Mr. WINCH: Is it being settled satisfactorily?

Mr. HENDERSON: The board has approved a recommendation that reimbursement of one month's rent or lease liability should be the maximum allowed except that up to three months may be authorized by the Minister to avoid individual cases of hardship. The Treasury Board decided to approve this recommendation on condition that the Department submit for approval a definite set of guidelines within six months against which individual cases for reimbursement of more than one month's liability would be judged. The board was also asked for a report at the end of the first two years on the number and cost of claims accepted and rejected which cover a liability period of more than one month. This change was promulgated in the regulations with effect from May 20, 1965. I can advise the Committee that careful records have been maintained at the Department of National Defence of the extent to which cases have been approved and I am further advised that while the reduction in the armed forces renders it difficult to pinpoint the exact savings stemming from the new regulations, the reduction in costs as the result thereof for the period from May, 1965, to February 28, 1966, has amounted to \$125,000. I am sure the outcome of this matter will recommend itself to you.

The CHAIRMAN: This is one matter that your Public Accounts Committee has studied for two or three reports. It is nice to hear such fine results as Mr. Henderson has just stated.

Mr. BIGG: I think, in this, general section 56 is wrong, is it not?

The CHAIRMAN: Paragraph 57.

Mr. BIGG: I would like to go back to paragraph 56, just for a moment. On this question of when the members of the armed forces and the Mounted Police, which come under the same regulations regarding leave the service or are transferred, it is my understanding they are arbitrarily assigned to some moving company. Sometimes these people have transportation of their own and they would be very pleased to take, shall we say, 75 per cent of the cost of moving themselves. Sometimes it is more economical to sell their furniture and repurchase it at the new location. It is my understanding they are no longer allowed to do this. I think this would be a considerable saving to the public purse as well as convenience to the members of the armed forces and the Mounted Police if they were allowed to take the 75 per cent cash settlement. Let the government go ahead and take a tender, but I think that these members should be allowed to take advantage of this opportunity in their moving, which they are not allowed to do. It would save a considerable amount of money for the government as well.

The CHAIRMAN: That is an interesting observation, Mr. Bigg.

Mr. HENDERSON: May we look into that, Mr. Bigg, and then speak to it when we discuss the 1965 report? This item will come up again there?

Mr. BIGG: It was brought to my attention by members of the armed forces.

Mr. HENDERSON: Paragraph 58.

58. *Educational costs incurred by the Department of National Defence.* In the 1963 Report (paragraph 65) it was noted that audit examinations at selected departmental schools in Ontario indicated that there had been unsatisfactory control over the computation of grants receivable from the provincial Department of Education, in some cases claims not having been made in respect of outlays eligible for grants. In its sixth Report 1964 the Public Accounts Committee requested the Auditor General to follow this matter up to determine that amounts of grants underclaimed in the past are recovered and that practices adopted by the Department avoid losses in the future are adequate (see Appendix 1, item 26).

At the close of the fiscal year action was being taken to ensure that applications for grants are properly made in future and, following correspondence with the Department of Education of Ontario with a view to obtaining grants underclaimed in prior years, the Department is preparing revised claims for submission to the Province.

This is exclusively 1964. You may recall the Committee asked me to follow this matter up and determine that amounts of grants underclaimed in the past are recovered and that practices adopted by the Department to avoid losses in the future are adequate. In the 1966 follow-up report I quoted from a letter I had received from the Minister of National Defence on March 5, 1965, which was most helpful. I can tell the Committee that recoveries from 13 school boards up to April 15, 1966, approximated \$116,000 and it is estimated that an additional \$34,000 to \$44,000 will be recovered from seven other school boards. The Committee might be disposed to consider that their recommendation made in their Sixth Report which is item 18 of the follow-up report has, therefore, been implemented. It would be my feeling that that is what you would wish to say.

The CHAIRMAN: Paragraph 59.

Mr. HENDERSON:

59. *Construction of destroyer escort vessels.* In 1950 and 1951 the Department of Defence Production awarded 13 contracts on a cost plus 5 per cent profit basis to 7 shipyards for the construction of destroyer escort vessels for the Royal Canadian Navy, the last of which was commissioned in November 1959.

Part of the construction work involved incorporating into the ships certain components supplied by the Crown. As the actual cost of the components manufactured by other contractors had not been determined, a billing price was estimated, but nevertheless the shipyards were charged on a firm price basis. The amounts of the billings thus became part of the shipyards' cost on which the 5 per cent profit was calculated. While the final costs for all components were not available at the fiscal year-end, it is estimated that the billing prices exceed actual cost by some \$1,483,000.

Construction of destroyer escort vessels. This note shows how excess profits of some \$74,000 has been paid by the crown and shipyard contracts. We drew this to the attention of the department and we were advised that steps would be taken to effect recovery from the contractors. We have been following this matter up with the Department of Defence Production, and in March of this year they made certain observations to us, with the following conclusion, and I am quoting from their letter:

The possibilities of obtaining a refund from the shipbuilders have been discussed with them. They note that they simply received five per

cent of total cost billed to them by the department and in their opinion there is no reason why subsequent differences between the total price paid by the Department of Defence Production for main components and the price billed to them should give rise to further negotiations. In fact, the original settlement was made for the precise purpose of eliminating the need for further adjustments.

There are seven shipyards involved and this issue has attracted the attention of the Shipbuilders' Association. Had the approval of Treasury Board been obtained in 1959, the department's position would have been technically sound. The department's objective was good and it did issue final amendments to amendments to these contracts. The question now is being reviewed by the Minister who has decided that no further recovery action shall be taken and that the contract shall remain undisturbed.

I think your concern here will probably be that delays in establishing final costs of material supplied the contractors should, in this way, result in added profits to the contractors. There has been considerable discussion of this matter, as I say, since the point was raised and—

An hon. MEMBER: It goes beyond that, Mr. Chairman.

Mr. WINCH: It goes to a very vital principle, in my estimation, and that is the position of a shipyard, and that we have no right to say that there should be re-negotiation on their profit structure. I take it, that is what your quotation means; that the government, the Department of National Defence, the Department of Defence Production or anything else, has no right to query them whatsoever if we think there has been an over-payment. There is a most vital principle. If the shipyards take that position, I think they should be stepped on and stepped on mightily hard especially when we read that the billing exceeded the actual cost by \$1,483,000. To try to tell the government, a department or this Committee that it is none of our business is a little bit of impudence that we should not accept. It is our business. We are the guardians of the people's money.

● (12:20 p.m.)

Mr. THOMAS (*Middlesex West*): May I ask, does the department acknowledge this excess profit of \$74,000?

Mr. HENDERSON: Yes, they do, Mr. Thomas. We drew the necessary attention to it and it is, as a result of this, that they have attempted, ever since, to effect recovery. The advice I have received here, which I quoted to you, is that they feel no further action can now be taken. They have explored all channels and they feel the matter will have to stand.

Mr. CAMERON (*High Park*): Will they be any wiser for it?

Mr. HENDERSON: I might ask Mr. Douglas. Are you familiar with where this stands, Mr. Douglas?

Mr. J. R. DOUGLAS (*Audit Director, Auditor General's Office*): Mr. Chairman, I think the decision of the department stems from the fact that in order to eliminate the continual adjustment in the price of the components supplied to the contractors, it was decided that they would estimate the probable final cost as carefully as possible and advise the shipbuilders of the amount and then settle the five per cent fee on that basis. Therefore, the shipbuilders had the

understanding that there would be no further settlement after this final estimated cost upon which the five per cent profit would be taken.

Mr. CHAIRMAN: I must confess that I do not understand this. I would like an example of how this comes about from start to finish. Are there other members in the Committee interested in this?

Mr. LEFEBVRE: I would like to know, Mr. Chairman, would the contractor be aware, when he receives a contract, that certain components would be supplied by the crown, as stated here in item 59, or would he be under the impression, when he received a contract, that he would be supplying all the components.

Mr. HENDERSON: No. I think he knew that the components were coming from the department. Is that right, Mr. Douglas?

Mr. DOUGLAS: Yes, that is correct.

Mr. LEFEBVRE: He knew all the time. Therefore, he should not be eligible for five per cent profit on something in which he has no investment of any kind.

Mr. HENDERSON: It is my recollection of the circumstances, from my study of the case—

Mr. WINCH: That is the point I was trying to raise.

Mr. BIGG: I think I missed something here. In the last paragraph it states "we have drawn this to the attention of the department and they have taken steps to recover it". This has been superseded, has it?

Mr. HENDERSON: The Minister has decided that no further recovery action is possible, after exploring the matter. I was quoting from a letter that—

Mr. BIGG: Did he give any reason why he did not think—

Mr. HENDERSON: Only the reason that I put on the record, M. Bigg. There have been very strong objections, of course, from the shipbuilders. This matter has been going on for a long time and these contracts—

Mr. BIGG: If we collect from an old age pension \$10.00 overpayment on an old age pension cheque, surely we can collect from Armstrong—

Mr. HENDERSON: I do not know whether the Committee would consider having a witness from the Department but I have an alternate suggestion to offer, Mr. Chairman, and that would be that, with your permission, we will re-discuss this with the department and ask if they will give us a memorandum to read at the next meeting answering the very points you have brought out.

Mr. LEFEBVRE: Is it strictly in shipbuilding that this occurs or is it in all departments of the government?

Mr. HENDERSON: No, this is just in connection with these 13 contracts. They were awarded back in 1950 and 1951, so it has been a long time.

Mr. LEFEBVRE: It is not the general course in government contracts, other than shipbuilding, that this is done, where the government supplies part of the material.

Mr. HENDERSON: No.

Mr. WINCH: The important thing to you, Mr. Henderson as Auditor General is, in your examination, which is your responsibility, you want to draw the attention of the House of Commons and this Committee to the fact that you think something is wrong, and I quote "it is estimated that the billing prices exceed actual cost by some \$1,483,000". You oppose a billing and, therefore, a payment which in your estimation as Auditor General, exceeded cost by some \$1,483,000?

Mr. HENDERSON: May I ask Mr. Long to speak on that. He has looked into this more recently than I.

Mr. LONG: I think the difficulty here is, you must remember that the Department of Defence Production has a revolving fund. Ships are pretty big items. They are going to supply certain components. These are not a simple matter of materials; they are something that has to be fabricated so costs are coming from different plants all over the place. These costs take a while to come in; they are subject to cost audit, in some cases, and adjustments but, in the meantime, the shipbuilder needs to have the billing for these materials. He gets his profit all right on the materials supplied to him, because he pays for that material.

Mr. LEFEBVRE: How would this \$1,483,000 compare to the total amount paid for the building of the 13 ships? What percentage are we talking about?

Mr. HENDERSON: Have you got that information here?

Mr. WINCH: In the same way, what relationship has it got? It is \$1,483,000 we should not have spent, according to this.

Mr. LONG: It is only the \$74,000 profit on that \$1,483,000 that we are talking about.

Mr. LEFEBVRE: It says here, "while the final costs for all components were not available at the fiscal year-end, it is estimated that the billing prices exceed actual cost by some \$1,483,000". Would this be the cost to the contractor?

Mr. LONG: Your problem is, how was this excess adjusted? The answer to that is, it was adjusted between Defence Production and National Defence, leaving the shipbuilder out of it. In other words, going direct. This may have been a reduction of profits on some of the purchases of these materials. The credit went to National Defence direct rather than going through the shipbuilder, but the shipbuilder, in the meantime, had the profit on that figure. He retained it.

Mr. HENDERSON: The five per cent is on the \$1,483,000, that is how the \$74,000 is arrived at. Do you see that?

Mr. FLEMMING: What is the relationship of the \$1,483,000 to the total cost of the 13 vessels?

Mr. LONG: The cost is \$69.6 million.

Mr. FLEMMING: For the total cost of the 13 ships?

Mr. LONG: That was your question.

Mr. FLEMMING: Yes.

Mr. BIGG: The \$74,000 is five per cent of this \$1,483,000?

Mr. HENDERSON: Yes, that is why the figure is shown.

Mr. BIGG: What they are saying here is that they have overcharged. Because they did not pay out this on this government supplied equipment, they are getting \$74,000, as a five per cent bonus, which they should not be getting and I do not think they should be getting it either.

Mr. HENDERSON: That is why we think it should be collected and when we drew it to their attention, they agreed.

Mr. LEFEBVRE: The contractor actually did work for this \$1,483,000?

Mr. HENDERSON: No, as Mr. Long explained, that was between two departments, I think, Mr. Long, it was between the Department of Defence Production and the Department of National Defence.

Mr. WINCH: The shipyards want their five per cent on the departmental exchange. They want their \$74,000 although they had nothing to do with it. It is a pretty serious principle.

Mr. HENDERSON: That is right.

Mr. FLEMMING: My question is this. What was the understanding with the contractors with respect to these items. Was it that as soon as they determined what the actual price should be the accounts should be adjusted, or was it that the Department said "we are going to supply these. We will set a price on them. This will be the final price and that is it"? Now I am just wondering if there was an understanding between the contractor and the Department with reference to what proved to be an understatement of cost?

Mr. WINCH: I am also very interested. Would you please add to your question, if I may suggest it, should a shipbuilding firm get a profit percentage on what is strictly a bookkeeping adjustment between two federal departments?

Mr. FLEMMING: Yes, of course I will be glad to add it but my point is, if the department said, "look, we are going to finalize this by saying the price will be so and so and that ends it", then it seems to me that the transaction is ended. But, if they say, "we will put this in at a certain figure" and then the figure develops as \$1,400,000 less, then surely they are not entitled to the five per cent of the \$1,400,000.

Mr. HENDERSON: That was the point that we turned up, Mr. Flemming. You see, as the note states, as the actual cost of the components manufactured by other contractors had not been determined, the billing price was estimated. Nevertheless, the shipyards were charged on a firm price basis. The Minister or the Department wrote in March this year. They said that the shipbuilders note that they simply received five per cent of total cost billed to them by the Department and, in their opinion, there is no reason why subsequent differences between the total price paid by the Department of Defence Production for main components and the price billed to them should give rise to further negotiations. They have their five per cent on the estimated price and they intend to keep it.

Mr. BIGG: Do we think it is a serious point of principle? If this has been going on, let us, for the future, stop it now by saying that when these contracts are negotiated with the government, we make it abundantly clear as to where

the five per cent should be attached and where not. To reduce it to absurdity, if you build a stone boat in a foundry and you load it with radar equipment and the government supplied the radar equipment, it might be worth a million dollars and the stone boat might be worth \$10,000. You are certainly not going to pay the foundry five per cent of the government supplied radar equipment just because they built a stone boat. If we are doing that, then I just suggest that we put a stop to it because it is obviously wrong.

If, perhaps, for some reason, we do not want to recover the \$74,000, we could set down a principle now that we are not going to carry on this way in the future.

The CHAIRMAN: Could we ask the department officials if this is what is being done or have they changed their policy?

Mr. HENDERSON: I think it would be very helpful if they might be given a chance to read these exchanges and be invited to either make a statement or to appear in answer to it. Possibly a statement would suffice. Would that be satisfactory to the Committee?

The CHAIRMAN: The Committee agrees that the officials make a statement.

Mr. LEFEBVRE: Could I ask exactly what the contract stated? I think that is important.

Mr. HENDERSON: We will see that it is an all-inclusive statement and bear Mr. Bigg's final summing up in mind and see if the department could not reply. It might save the time of the Committee by following that course.

The CHAIRMAN: Mr. Cameron, did you have something else on this?

Mr. CAMERON (*High Park*): Yes, I have something that is really supplemental to Mr. Flemming's thinking and other comments that have been made. Was the Minister's decision not to try and collect the \$74,000 based on a legal opinion furnished to him by either his departmental solicitors or by the Department of Justice, or was it simply his own decision? What is his interpretation of the contract?

Mr. HENDERSON: We might invite the department to answer that question in their reply. Would that be satisfactory, Mr. Cameron?

Mr. CAMERON (*High Park*): Yes, certainly.

The CHAIRMAN: Paragraph 60.

Mr. HENDERSON:

60. *Equipment disposed of in error.* In April 1963 a unit of electronic aircraft navigational equipment, originally costing more than \$9,000 and having an estimated replacement cost of \$15,000, was returned for repairs to an Air Force supply section. Due to an error, the equipment, instead of being repaired, was declared as surplus to Crown Assets Disposal Corporation and was sold to a customer, together with other surplus materiel, at a scrap price of \$20. The purchaser in turn sold the equipment for a nominal sum to an individual who, being aware of the actual value of the unit, refused to return it and be reasonably compensated.

A Board of Inquiry concluded that faulty procedures respecting the determination as to whether materiel should be declared surplus to Crown Assets Disposal Corporation contributed to the improper disposal and expressed appre-

hension that similar instances might have occurred. The Department has since revised its procedures.

Mr. HENDERSON: Paragraph 60. Equipment disposed of in error. The case described here represents, of course, a straight mistake. I understand it has not been possible to remedy it by securing the equipment from the purchaser and that now the equipment may, in fact, be largely obsolete. All I can say here is that you may wish to express concern that a mistake like this should occur. I understand no disciplinary action was taken by the department. I mention that because some members of the Committee invariably ask me that question.

Mr. FLEMMING: Mr. Chairman, is the first item in the sale by the Crown Assets a declaration that the Crown Assets are not required to deliver anything if they find a mistake has been made?

If it is after delivery, I do not see how they are going to get it back but that probably is the case at this time.

Mr. HENDERSON: This has been exhaustively examined and it is very much the exception, I am happy to say.

The next paragraph, item 61, is also a 1964 item. Medical fees improperly retained by a Service medical officer.

61. *Medical fees improperly retained by a Service medical officer.* Contrary to Service regulations and orders, an Air Force medical officer retained amounts received from the Group Surgical Medical Insurance Plan for medical treatment provided to dependents of Service personnel in a Service hospital. In March 1963 the officer was found guilty of conduct to the prejudice of good order and discipline and was reprimanded and fined \$200, but no action was then taken to recover the amount improperly retained by him.

In October 1963 the officer was released from the Service at his own request, without restitution having been requested from him or made by him. In August 1964 the matter was referred to the Department of Justice which has demanded payment of \$4,053 from the former officer.

This case describes how an Air Force medical officer retained amounts of \$4,053. In March, 1963 this officer was found guilty of conduct to the prejudice of good order and discipline and was reprimanded and fined \$200. Six months later in October, 1963, he was released from the service at his own request, again, without any restitution of the \$4,053 having been requested from him or offered by him. It was not until ten months later that the matter was referred to the Department of Justice which then demanded payment of the \$4,053 from the former officer. The former officer engaged a law firm to represent his interests, and correspondence ensued. On the advice of the Department of Justice, the Department of National Defence agreed that this deficiency in public funds should be settled for in the amount of \$2,500 although an amount of only \$1,000 has been offered by the ex-officer's solicitor.

In August, 1965, the Department of Justice advised that the settlement offer of \$2,500 had been accepted. A cheque was forwarded to the Department of National Defence. My concern here is that recovery of this money was not sought in the initial instance when the officer was found guilty or even six months later, when he asked for his discharge, and was released from the service. There was such an extensive time lag that it seemed to me to work

against the best interests of the Department in their efforts to collect. To sum it up, I feel it demonstrates the lack of effective administrative action.

Mr. LEFEBVRE: Do you know if, when a sentence such as this is imposed, recommendations are made that restitution be made also as part of the sentence for the crime?

Mr. HENDERSON: I do not think I quite understood your question.

Mr. LEFEBVRE: When the judgment is given and a fine of \$200 was imposed on this gentlemen, was a recommendation made by the judge or the officer in charge of the inquiry that he give back the money.

Mr. HENDERSON: No, sir; my understanding is definitely not. Mr. Douglas, could I ask if you would check me on this.

Mr. LEFEBVRE: Is this usually the case?

Mr. HENDERSON: I would hope not.

Mr. BIGG: Was this deficiency known at the time. Perhaps it was not until the yearly checkup of the station's books that the full size of his misconduct came to light. They may not have known—

Mr. HENDERSON: It was known at the time but no effort was made—

Mr. LEBLANC: He was working then, was he, when action was taken. If the action was just mentioned misconduct and nothing was said about the refund of the money, well the judge could not say that the money should be refunded.

Mr. HENDERSON: That is right. It was found that he had taken the money.

Mr. LEBLANC: It depends on the way the action was taken, of course.

Mr. CAMERON (*High Park*): Who is entitled to the money?

Mr. HENDERSON: The Crown, the Department of National Defence.

Mr. CAMERON (*High Park*): They over-paid?

Mr. HENDERSON: Yes. The Department of National Defence, I think now, having received the compromised settlement, are in the process of determining how much should be refunded to the plan.

Mr. LEFEBVRE: I was under the impression that no charges at all were to be made to the dependents, whether to the Crown or to an individual?

Mr. HENDERSON: That involves the working of this particular plan and perhaps Mr. Douglas could answer a question on that, could you? Can you add anything further to that, Mr. Douglas?

Mr. DOUGLAS: The dependents, in this particular location, were entitled to free medical attention but they were insured under the group medical plan and claims were made. The cheques were made payable to the officer concerned who cashed them. However, the money should rightly have belonged to the Crown rather than the medical officer but he retained the funds.

Mr. LEFEBVRE: Would this be a group plan with an independent company, you mean?

Mr. DOUGLAS: Yes, it was the government group medical plan.

Mr. BALDWIN: Might I ask Mr. Douglas over what length of period this system of defalcation took place and was the plan one which did not provide for some investigation? In other words, was this continued over a long period of time; was there no opportunity, no method, to check on the fact that this particular officer was retaining these funds in his possession? Is it the practice that officers do retain or can retain in their possession sums of money like this without there being any check on it? Is this the common practice?

Mr. DOUGLAS: This extended over a period of about two years, 1961 and 1962.

Mr. BIGG: Did they rule that the doctor actually knew this was going on or was there an error in his accounting system?

Mr. HENDERSON: I think the file indicates that he was aware of what he was doing.

Mr. LEFEBVRE: Yes, I know, but you say it existed for two years.

Mr. THOMAS (*Middlesex West*): It would appear that he was collecting for medical services from this group plan for people who were already covered under the armed services. Therefore, he must have known that what he was doing was a straight case of fraud.

Mr. NOBLE: Mr. Chairman, it seems to me there must have been some laxity on the part of the counsel that represented the government when this case was heard. Would this be —

Mr. HENDERSON: I do not know that. I did not find myself blaming the counsel so much, Mr. Noble, as the fact that having knowledge of this there did not seem to be any concern to go after it. If they had got after it early, they might have salvaged more. That is why I said that I feel there is a lack of effective administration here. The chap came along six months later and asked to be released from the service. Again, the matter was not raised. That would have afforded them a second chance. It was only ten months after that that they got around to asking the Department of Justice if they would please go and collect. If they started earlier, knowing about it, they might have followed it up—

Mr. NOBLE: It seems to me, Mr. Chairman, that this is a pretty small penalty for a man who has been able to get away with this amount of money, and not have to refund the money that he has taken illegally. It must have been illegal.

Mr. BIGG: I have one of these plans myself. Once I got a cheque sent to me personally by the insurance company for \$192. They sent it to me because they could not read the doctor's signature. It is quite possible the doctor did not pay, what I would call, direct personal attention to these things. He did not sign cheques. They can go through to the bank and be deposited to his account I know, as I said, it would take a Philadelphia lawyer to understand my surgical medical plan. The way they pay is very hazy indeed. Sometimes I do not know whether I owe the doctor or whether I do not owe him deductible insurance. As I said, they sent me the cheque and it should have gone to the doctor. I signed the papers saying "please pay my physician". Unless the doctor himself was

personally knowledgeable that he was doing this thing intentionally and cheating the people, I can see why he was not severely dealt with.

About collecting the money, again it seems to be in accordance with other ministerial departments to say, "well, is this a case where we should go beyond the offence on the face of it, and collect the money back from the doctor or not"? Somebody made a decision, I suppose.

The CHAIRMAN: There is one difference, Mr. Bigg. In your case the amount was \$192 and this is over \$4000.

Mr. BIGG: That is right but there were four doctors in this particular case and none of them, to my knowledge, handled the accounts, the payment of money at any time. The girls do it behind the desk and deposit my cheque or my cash to his account in the bank. It certainly is quite possible that he did not know that this was going on to the extent that it was. There must be some reason for the laxity.

Mr. LONG: Mr. Bigg, this was a service doctor who was in receipt of a salary from the Crown. Therefore, any money he collected should have been revenue—

Mr. BIGG: He was not running any other private practice?

Mr. LONG: I do not think so.

Mr. HENDERSON: He was on the payroll.

Mr. BIGG: Yes, I know.

Mr. BALDWIN: What you are saying is, it is a fact that no action was taken and this lack of action might have originated because of the laxity in failing to see that this practice continued for a period of two years and this service officer was allowed to carry on a practice which permitted him to retain this \$4,000? They, very likely, may be the same people who failed to initiate the action that might have resulted in the money being returned to where it belongs before the officer left the service. This is what I think is important.

Mr. BIGG: Where doctors are on stations, like Cold Lake Airport, in the Air Force, I do not believe they are prevented from practicing their profession when they are not, shall we say, required at the station. I believe there are not only army personnel and air force personnel at that station, but there are as many civilians, as, and in some cases more than there are service personnel. It is my understanding these men are allowed to practice their profession as long as they do their duty in the Air Force. I am just saying, let us not be too hasty and say this man is a confirmed criminal when he may be carrying on a doctoring practice. Carelessness in bookkeeping is not necessarily criminal in intent.

The CHAIRMAN: Would the Committee like to have the official to explain some of these questions?

Mr. FLEMMING: Do I understand that this was settled for \$2500, or is that—

Mr. HENDERSON: That is correct. It has been settled for \$2500. He engaged a lawyer and that settlement was made by the Department of Justice.

Mr. FLEMMING: That is what I wanted to clear up.

The CHAIRMAN: It has been settled. It is just a question of whether this can happen again or not. What do you think, Mr. Henderson?

Mr. HENDERSON: If we have officials of the Department of National Defence here, it would be a very simple matter just to revert to it and ask them. I imagine you may wish to have them here in connection with some of the 1965 items. I was thinking of the Bomb Toss computer and some of those in which event you will have the people here who could be asked to speak to it. Would that seem sensible?

Mr. CAMERON (*High Park*): When you brought the matter up did they tell you why they did not do it earlier? What answer did you get?

Mr. HENDERSON: I do not know. Did we have any answer, Mr. Douglas, from the Department on the point that Mr. Cameron has made? Did they say to us why they did not do it earlier? Was that question asked of the Department?

Mr. DOUGLAS: There was no explanation whatsoever.

Mr. HENDERSON: Did we ask the question?

Mr. DOUGLAS: Yes.

Mr. HENDERSON: There was no explanation available?

Mr. DOUGLAS: No explanation, no.

The CHAIRMAN: We will refer this to the officials when they are here.

I am wondering, Mr. Henderson, in order that the Committee might do a little homework before coming to the next meeting—we will be adjourning in ten minutes—if we could mark the next few pages “1965” and then those that are “1964” only. I would ask the Committee members to read those 1964 items and study them so that when we come back, we will be ready with our questions.

Mr. HENDERSON: I will give you the numbers now if you would like to tick them.

No. 62. Town of Oromocto, N.B. I would like to discuss that one. There are 64 items.

Paragraph 63; I will deal with that.

Mr. FLEMMING: Mr. Henderson, would Town of Oromocto not be coming up in 1965?

Mr. HENDERSON: No, I will deal with it in 1964. Paragraph 63; I would like to deal with that one, military assistance to the United Nations and Indo-China Truce Commissions.

Paragraph 64; Pension awards effective at early age. That will go forward to 1965. That is another one you might have the Department of National Defence here on.

Paragraph 65; Discretionary awards of Service pensions. That would go to 1965.

Paragraph 66 will go to 1965.

Paragraph 67 will go to 1965.

Paragraph 68 will go to 1965.

Paragraph 69; I would suggest we deal with that; that is 1964. We may want to have a witness present on that one, Mr. Chairman, because there is a whole host of Customs and Excise matters.

Paragraph 70; I will deal with that now; that is 1964.

Paragraph 71, 1965; refund of sales tax.

Paragraph 72 will go to 1965—no we will deal with paragraph 72 now, in 1964.

Paragraph 73, 1965. No, I am sorry, we will deal with paragraph 73 now.

Paragraph 74, we will deal with now.

Paragraph 75, we will deal with now. I beg your pardon.

Paragraph 75 will be in 1965, about the houses.

Paragraph 76 will be in 1965.

Paragraph 77 will be dealt with now, in 1964.

Paragraph 78, we will deal with in 1964.

Paragraph 79, second class mail, will be for 1965.

Paragraph 80 will be an 1964 item for discussion.

Paragraph 81 we will deal with now.

Paragraph 82 we will deal with now, in 1964.

Paragraph 83 we will deal with now.

Paragraph 84 we will deal with now.

Paragraph 85 we will deal with now.

Paragraph 86 we will deal with now.

Paragraph 87 we will deal with now.

Paragraph 88 we will deal with now.

Paragraphs 89 and 90 and 91 will be 1965.

Paragraph 92 we will deal with now.

Paragraph 93 we will deal with now.

Paragraph 94 we will deal with now for these will be the 1964 non-productive payments which are on appendix two and you might like to look those over because the Committee is usually exercised as to the underlying reasons for those. I think there are about 35 of them. They are on a separate appendix, that is back in 1964.

Then, Mr. Chairman, having completed that, we would come on to paragraphs which could be gone through fairly rapidly because the following paragraphs are all updated again in 1965. I can just give you the highlights of the 1964 ones and then I think we will be in shape for the 1965 discussion.

The CHAIRMAN: Gentlemen, you have all those paragraphs marked now for 1964, and I would like you to read them over and be prepared with your questions for the next meeting. We will see what officials you may want to have here for any of them in between time. Are there any questions before we adjourn?

The next meeting will be on Thursday, May 5, I cannot tell you about the next week. The co-ordinator of Committees works this all out and you will get your notice. On May 10 we are going to have the St. Lawrence Seaway people

here. At the next meeting, we may have another witness here in addition to what we have discussed this morning.

Mr. NOBLE: Mr. Chairman, I would like you to talk to the Co-ordinator and see if he could not arrange to have the Public Accounts Committee meet at a different time from the Agriculture. I am on both those Committees and they have been both meeting at the same time for about three meetings.

The CHAIRMAN: I will do that. We appreciate your presence at Public Accounts instead of Agriculture.

Mr. NOBLE: I am trying to help you out.

The CHAIRMAN: Thank you very much.

The meeting is adjourned.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

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LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS
First Session—Twenty-seventh Parliament
1966

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

THURSDAY, MAY 5, 1966

Public Accounts, Volumes I, II and III (1964 and 1965)
Report of the Auditor General to the House of Commons (1964)

WITNESSES

Mr. A. M. Henderson, Auditor General of Canada; and Messrs. G. R. Long,
H. G. Crowley and D. A. Smith of the Auditor General's staff.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,	Mr. Gendron,	Mr. Stafford,
Mr. Ballard,	Mr. Leblanc (<i>Laurier</i>),	Mr. Tardif,
Mr. Bigg,	Mr. McLean (<i>Charlotte</i>),	Mr. Thomas (<i>Maison-</i> <i>neuve-Rosemont</i>),
Mr. Cameron (<i>High Park</i>),	Mr. Morison,	Mr. Thomas (<i>Middlesex</i> <i>West</i>),
Mr. Dionne,	Mr. Muir (<i>Lisgar</i>),	Mr. Tremblay,
Mr. Flemming,	Mr. Noble,	Mr. Tucker,
Mr. Forbes,	Mr. Racine,	Mr. Winch—(24).
	Mr. Schreyer,	

(Quorum 10)

Edouard Thomas,
Clerk of the Committee.

ORDERS OF REFERENCE

WEDNESDAY, May 4, 1966.

Ordered,—That the quorum of the Standing Committee on Public Accounts be reduced from 13 to 10 Members.

WEDNESDAY, May 4, 1966.

Ordered,—That the Standing Committee on Public Accounts be authorized to sit while the House is sitting.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House.

MINUTES OF PROCEEDINGS

THURSDAY, May 5, 1966.

(5)

The Standing Committee on Public Accounts met this day at 9.40 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Baldwin, Ballard, Bigg, Cameron (*High Park*), Dionne, Flemming, Forbes, Gendron, Hales, Lefebvre, McLean (*Charlotte*), Muir (*Lisgar*), Noble, Schreyer, Tardif, Thomas (*Middlesex West*), Winch (17).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; and Messrs. Long, Crowley, Douglas, Laroche, Smith, Rider and Buzza of the Auditor General's staff.

The Committee resumed consideration of the Auditor General's Report for the year ended March 31, 1964.

Mr. Henderson reviewed paragraphs 62 to 80 inclusive and was questioned thereon.

Paragraph 62 was allowed to stand.

Paragraph 69 was referred to a sub-committee comprising Messrs. Baldwin, Bigg, Flemming and McLean (*Charlotte*) for more detailed study and report to the Committee.

Paragraphs 72, 73, 74 and 75 are to be reconsidered when the departmental representatives are available.

The Auditor General is to provide further information on the results of the investigation under way with respect to paragraph 80.

At 11.00 a.m., the questioning of Mr. Henderson continuing, the meeting adjourned until Tuesday, May 10, 1966.

Edouard Thomas,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

THURSDAY, May 5, 1966.

● (9.30 a.m.)

The CHAIRMAN: Gentlemen, we have a quorum. You will recall that the House concurred in this Committee's report to the House asking for a reduction of a quorum from 13 to 10, and, secondly, that we be authorized to sit while the House is in session. Both of these recommendations were concurred in by the House yesterday. We can now start with a quorum of 10. We can sit while the House is in session. We have no excuse whatsoever now, gentlemen, but to proceed and do a good job and cover the field, which is a large one to cover. So I would ask your co-operation all along the line. We will not take advantage of sitting while the House is in session, we will do it only when it is absolutely necessary, especially when we have witnesses here from out of town, and so on. We will try to stay with the two meetings a week and have them in the morning, but if necessary we will use the privilege which has been given to us.

Mr. WINCH: I was in contact with you yesterday about the fact that the first meeting of the Defence Committee is being held this morning. I told you, sir, that I would be here for the quorum. Do I have your permission, at least for a little while now, to leave to attend the Defence Committee?

The CHAIRMAN: Yes, Mr. Winch, you may leave to attend the Defence Committee if you wish. I think they are going to do everything possible to try and get away from this overlapping which has been a continuous problem. I know Mr. McLean is on Fisheries which is meeting across the hall too.

Mr. WINCH: Since this is the first meeting of the Defence Committee I may be excused for a few minutes?

The CHAIRMAN: Yes, Mr. Winch.

We are proceeding with the Auditor General's Report of 1964, page 27, Section 62 and we are going to discuss only those items which appear in the 1964 report. Mr. Henderson?

62. *Town of Oromocto, N.B.* In 1955 the Governor in Council approved a proposal by the Department of National Defence to establish the Town of Oromocto, N.B., adjacent to Camp Gagetown. Subsequently in 1956 the Town was incorporated by an Act of the Province which provided for an administrative board of seven commissioners, four appointed by the federal government and three by the Province. The object in establishing the Town was to provide municipal facilities to serve not only military personnel stationed at Camp Gagetown but a civilian population as well, in order to avoid the growth of a purely military community.

To implement the proposal, the department turned over to the Town without charge roads and services already installed in the housing area together with a fringe area of land. This assistance was augmented by capital grants totalling \$1,500,000 to enable the Town to further develop its roads and services for the purpose of attracting private sponsors for the various shopping, civic institutional and industrial areas. To complete the physical development of municipal works, the Crown provided capital assistance loans to the Town amounting in all to \$4,450,000 over the years from 1957 to 1961.

In the beginning it was expected that the operating expenses of the Town would be financed mainly from grants in lieu of taxes on federal property and that this burden would shift gradually as civilian interests in the Town developed. The shift has not materialized with the result that annual operating grants provided by the Crown continue at a high level and it is now expected this condition will exist for many years to come.

The following table summarizes the capital grants, capital assistance loans and operating grants paid to the Town since its inception:

Year	Capital grants	Capital assistance loans	Operating grants
1955-56	\$ 750,000	—	\$ 50,000
1956-57	750,000	—	50,000
1957-58	—	\$ 1,500,000	350,000
1958-59	—	1,500,000	960,000
1959-60	—	1,000,000	1,656,000
1960-61	—	450,000	1,600,000
1961-62	—	—	1,529,000
1962-63	—	—	1,489,000
1963-64	—	—	1,800,000
	<u>\$ 1,500,000</u>	<u>\$ 4,450,000</u>	<u>\$ 9,484,000</u>

Repayments of the above capital assistance loans have totalled \$735,000 to March 31, 1964 while interest amounting to \$1,110,000 has been received to the same date. Funds for these payments have been provided out of the annual operating grants provided by the Department of National Defence.

The Town's operating costs for the calendar year 1963 amounted to \$2,030,000 while its revenues totalled only \$209,000. The Department of National Defence owns 1,900 housing units representing about 90 per cent of the value of all property in the Town.

A substantial part (over 50 per cent) of the annual operating costs relates to expenditure for the operation of seven schools attended by dependents of servicemen occupying married quarters in the Town. The cost of operating the schools has been a matter of concern to the department and Treasury Board for some time. A study of this matter by Treasury Board staff disclosed that the cost per pupil for 1962 in the Fredericton, N.B., school system was \$20½

compared with \$304 per pupil at Oromocto. The Treasury Board has requested the department to advise it as to the action proposed to reduce the excessive education costs.

The capital assistance loans referred to above have from year to year been classified as assets in the Statement of Assets and Liabilities (Exhibit 2). In both the 1959 and the 1962 reports the Audit Office suggested that in view of the very small amount of revenue accruing to the Town (currently and in the foreseeable future) it seemed unrealistic to continue to treat the loans to the Town as an asset item for purposes of the Statement of Assets and Liabilities. The Public Accounts Committee, after reviewing this matter, recommended in its Sixth Report 1964 that the Department of Finance give consideration to writing off these loans to expense (see Appendix 1, item 25).

Mr. HENDERSON: Mr. Chairman, this item relating to the Town of Oromocto, relates only to the 1964 report. In this note it is pointed out at its conclusion, as you will see, that the capital assistance loans which is shown in the tabulation here as having totalled \$4,450,000 up to the end of 1963-64, have been treated as assets in the statement of assets and liabilities. Now, since 1939, we have suggested that, in view of the very small amount of revenue accruing to the Town of Oromocto, currently and in the foreseeable future, it seemed to us unrealistic to continue to treat these loans to the town as an asset item in this way. In 1964 your committee heard evidence from the Deputy Minister of National Defence and also the Deputy Minister of Finance, on this subject. It was following that that you made your recommendation that the Department of Finance given consideration to writing these loans off to expense. In February I asked the Deputy Minister of Finance for advice as to what steps had been taken to implement this recommendation. I spoke to Mr. Bryce about this matter yesterday and we have a date to discuss it. If the committee is agreeable, Mr. Chairman, I suggest we might stand this item and I will report back to the committee at a later meeting. Would that be satisfactory?

The CHAIRMAN: Does the committee agree?

Some hon. MEMBERS: Agreed.

63. *Military assistance to the United Nations and Indo-China Truce Commissions.* Canadian defence forces are presently engaged in peace-keeping operations for the United Nations in five countries. In this connection, the Department of National Defence has absorbed the initial cost of transporting equipment and personnel to the Middle East and the Congo, travel and removal expenses in Canada, normal pay and allowances, clothing and personal equipment, etc., which at March 31, 1964 totalled approximately \$39 million. In turn, the United Nations accepted the responsibility of reimbursing Canada for foreign and special allowances of serving personnel, abnormal depreciation of equipment supplied by Canada and used by Canadian forces, the cost of operating special Air Force flights at the request of the United Nations, and items such as vehicles, ordnance stores, and medical supplies specifically ordered from Canada for the use of the United Nations forces. Total recoverable expenditures over the years have amounted to \$23 million, of which \$2,700,000 was outstanding at the fiscal year-end.

Canada also has military personnel serving with the Indo-China Truce Commissions in Vietnam and Laos. Expenditures relating to these operations are on a cost-sharing basis and by March 31, 1964 amounted to some \$10,200,000, of which \$8 million was absorbed by Canada and \$2,200,000 classed as recoverable. Outstanding recoverable expenditures at the fiscal year-end amounted to \$415,000.

Mr. HENDERSON: No. 63 is again a 1964 item having to do with Military Assistance to the United Nations and the Indo-China Truce Commissions. This note can be said to be an information one indicating how Canada recovers a portion of its costs on peace-keeping operations for the United Nations and various countries. It will be noted that the total recoverable expenditures over the years has amounted to \$23 million of which \$2,700,000 was outstanding and unpaid at March 31, 1964. This amounted, at December 31, 1965, to a total of \$5,750,000. In the case of expenditures relating to military personnel serving in the Indo-China Truce Commissions in Vietnam and Laos, outstanding recoverable expenditures at March 31, 1964 will be noted to have been \$415,000. The figure unpaid at December 31, 1965, amounted to \$775,000. Excepting for the Yemen operation which is within the United Nations figure, no payments were received from either of the sources indicated here during the period of one year and nine months mentioned.

With regard to the Yemen operation which is, as I mentioned, within the United Nations figure, the balance here was \$265,000 at March 31, 1964 and this was reduced by payments to \$70,600 at March 31, 1965 and this balance was paid off on March 22, 1966. This, therefore, leaves the major balance owing from the United Nations at the present time, and it stems largely, according to my information, from the Congo operation and from the United Nations expeditionary force operations on the Gaza Strip. I do not know whether members have any questions on this.

Mr. MUIR (*Lisgar*): Is it expected that this will ever be recovered in total?

Mr. HENDERSON: I understand that it is hoped that a large portion of it will be recovered, Mr. Muir, particularly if—as a result of the discussions now going on between the 14 ad hoc committee and the U.N. regarding delinquent contributors—their efforts meet with success.

Mr. MUIR (*Lisgar*): For the sake of bookkeeping if it is not recovered is it treated as a write-off?

Mr. HENDERSON: I think the department would want to see the outcome of all these various negotiations and it would take some time before they had reached the point where they would write it off.

Mr. THOMAS (*Middlesex West*): What is the point in putting it in here, Mr. Henderson?

Mr. HENDERSON: The note was put in here to show the size of the debts that were mounting up, Mr. Thomas. As I mentioned, it was an information note only in order to bring to the attention of the House the size of Canada's contribution and the length of time in which we have to carry it before we can obtain reimbursement. We have no criticisms other than that. You might say it is a substantial overdue accounts receivable really.

● (9.45 a.m.)

69. *Payment of duty on coasting trade vessel deferred.* The owner of a foreign-built British vessel applied for a licence to engage in the coasting trade of Canada. Section 670 of the Canada Shipping Act, R.S., c. 29, states that a coasting licence shall be issued to foreign-built British ships upon payment of the duty which the Customs Act and related regulations require to be paid in full. The owner was accordingly assessed duty on the vessel under tariff item 440 at the rate specified, viz., 25% ad valorem on the fair market value of hull, machinery, furniture and appurtenances. On August 6, 1963 the Department instructed its collector at the port of entry to issue the licence but, because the owner could not pay the duty of \$10,078 in full, arranged to accept a down payment of \$3,000 on August 12, 1963 and post-dated cheques payable monthly through September 30, 1964 to cover the balance. No interest was charged.

The Customs Act is not only specific under section 22 in requiring that duties must be paid in full at the time goods enter Canada but also provides under section 79 that:

No person shall make, nor shall any officer accept any bond, note or other document for the purpose of avoiding or deferring the actual payment of duties legally accruing on goods imported into Canada, or arrange for deferring payment of such duties in any way, unless such goods are entered for warehouse, and duly deposited therein according to the laws and regulations governing the warehousing of such goods.

To further protect the revenue, the Act provides penalties under section 235(1) to be assessed against a collector or other officer who allows payment of duty to be avoided or deferred:

Every collector or other officer who allows the payment of duties of Customs to be avoided or deferred for any cause or consideration whatsoever, except by regular entry for warehouse, is liable to a penalty equal to the full value of such goods, and the duty accruing thereon, which shall be recoverable in any court of competent jurisdiction, from him or his sureties or either of them.

When the department instructed its collector at the port of entry to issue the coasting licence to the owner of the ship, the collector was advised that special arrangements had been made in the department regarding payment of duty. As a consequence of carrying out this instruction, involving as it did payment of duty on an instalment basis, the collector immediately rendered himself liable to the penalty imposed by section 235(1) which amounted to \$50,391. On September 26, 1963 the full amount of this penalty was remitted by an Order in Council under authority of section 22 of the Financial Administration Act. The remission is shown on page 43.13 of the Public Accounts for the fiscal year 1963-64.

On drawing the irregularity of these steps to the attention of officers of the department, we were informed that they are of the opinion that payment of the duty in the manner described was legalized by remission of the penalty assessed against the collector and that the procedure used is proper within the meaning of the legislation involved.

It is the opinion of the Audit Office that the penalty provision contained in section 235(1) of the Customs Act exists for the protection of the revenue

against collectors or other officers who may allow payment duties to be avoided or deferred, and that the action of the department in penalizing the collector for its own failure to collect the duty in full and then causing the penalty to be remitted is irregular and undesirable. If it is not, then it would appear that any section of any Act with respect to which there is a penalty within the meaning of section 22 of the Financial Administration Act could be circumvented simply by using the device of having a public officer deliberately contravene any such section and then remitting the penalty incurred by his unlawful act.

Section 670 is one of the sections in Part XIII of the Canada Shipping Act and, as already stated, specifically provides that a coasting licence may be issued to a foreign-built British ship only if the duty has been paid. Section 673 in Part XIII gives the Governor in Council the following power:

The Governor in Council may, from time to time, by order in council declare that the foregoing provisions of this Part shall not, for the period specified in such order in council, apply, either throughout Canada or in any specified waters of Canada, to the ships or vessels, or to any specified, ascertained or ascertainable class or number of the ships or vessels, of any foreign country.

It was noted that the Order in Council referred to above also exempted the vessel in question from the provisions of Part XIII of the Act. Since the power of the Governor in Council in section 673 is restricted to ships of "any foreign country", it seems to us that the exemption could not apply to the vessel in question which is a foreign-built British ship. In reply to our inquiry concerning this, departmental officers stated they were treating the ship as though she were a foreign ship because the duties were being deferred and not paid at the time the coasting licence was granted.

The CHAIRMAN: Page 33, No. 69, I believe, is the next one.

Mr. HENDERSON: That is right, paragraph 64 went to 1965 and paragraph 65 and 66. Paragraph 67, Unemployment Assistance and paragraph 68, have been put forward to 1965. Paragraph 69 details the action taken by the Department of National Revenue having to do with the licensing and taxing of a coastal vessel and it indicates the three steps taken which, in my opinion, were irregular. This is purely a 1964 note. If you have had a chance to look at this note, perhaps I could just summarize the three steps that I have mentioned. The first one is, the department instructed its collector at port of entry on August 6, 1963, to issue the license. Because the owner could not pay the duty, which amounted to \$10,078, in full, as provided by law, the department accepted a down payment of \$3,000 on August 12, 1963, and postdated cheques payable monthly to cover the balance. No interest was charged. Such action is contrary to section 22 of the Customs Tariff, which I quote here, and which is quite specific in requiring that all such duties must be paid in full. I also quote section 79 of the act.

The second step was caused by the fact that the action of the department immediately rendered its own collector at the port of entry liable to a penalty equal to the full value of the goods. This penalty is provided, as I say, in section 235(1) of the Customs Act. The amount of the penalty was \$50,391. However,

the full amount of this penalty was then remitted by Order in Council under authority of section 22 of the Financial Administration Act. In my opinion, this action by the department, in penalizing the collector for its own failure to collect the duties in full, as provided by law, and then causing the penalties to be remitted, is irregular and undesirable.

The third step, the vessel, which was a foreign built British ship, was exempted from the provisions of Part VIII of the Canada Shipping Act. This exemption is limited only to ships of any foreign country, as is explained here. The department told us they treated this ship as if she were a foreign ship because the duties were being deferred, and not paid at the time the coasting license was granted. In agreeing to the correctness of all of the facts contained in this note, the department justified their action principally on the hardship of the circumstances in which the purchaser of the vessel had found himself when he became aware that it was, in fact, subject to customs charges.

I can only say to the Committee that, in my view, the three steps taken by the department are contrary at each step to the applicable legislation. I feel a serious view should be taken of the department's actions in this case. As I say here in my note, with regard to the second step, the action of the department in penalizing its collector for its own failure to collect duty in full, and then causing the penalty to be remitted, is irregular and undesirable. If it is not, then it would appear that any section of any act with respect to which there is a penalty within the meaning of section 22 of the Financial Administration Act could be circumvented simply by using the device of having a public officer deliberately contravene any such section and then remitting the penalty incurred by his unlawful act.

I do not know, Mr. Chairman, whether it would be your disposition to wish to discuss this with witnesses from the Department of National Revenue. There are a number of other paragraphs coming up relating to that department but possibly the Committee would like to ask some questions concerning this one?

The CHAIRMAN: Mr. Henderson, I think there will be a few questions or a little groundwork at this time before proceeding with your suggestion.

Mr. TARDIF: Who is responsible for making recommendations that this amount be remitted?

Mr. HENDERSON: The department.

Mr. TARDIF: Who is the department?

Mr. HENDERSON: The Department of National Revenue would make their recommendation for the remission to the Governor in Council and—

Mr. TARDIF: A committee, or an individual?

Mr. HENDERSON: It would be the Deputy Minister who would brief the Minister and the Minister would make the recommendation to the Governor in Council.

Mr. TARDIF: It seems like a lot of power in the hands of one man.

Mr. NOBLE: Mr. Chairman, I would like to ask the Auditor General who the owner of the ship was? Is it a British ship. Was it a Canadian owner?

Mr. HENDERSON: I believe it was a Canadian owner.

Mr. NOBLE: Was he ignorant of the fact that this was not taken into Canadian registry?

Mr. HENDERSON: I believe, according to the department, he did not realize it would be subject to customs charges and he was placed in a difficult spot, having to pay those charges. As you know, all customs duties are payable in cash.

Mr. NOBLE: My other question is, was this fine sizeable? Was it \$50,000?

Mr. HENDERSON: The law requires that it be the full duty, including the value of the vessel. The collector, if he does this, renders himself liable for the value of the goods plus the duty. That is how the \$50,000 was arrived at.

Mr. NOBLE: I would take it then, Mr. Chairman, that this amount of money was paid and then remitted? Is that the way the transaction took place?

Mr. HENDERSON: No, I understand the penalty was levied but before the collector was asked to pay, it was remitted. Am I not correct in that?

Mr. TARDIF: Was that ship built under Canadian subsidy?

Mr. HENDERSON: No, sir, I do not think so. It was an American built ship.

Mr. TARDIF: I was wondering whether he got it both ways.

Mr. BALDWIN: This practice does not happen very often in regard to income tax, does it?

Mr. HENDERSON: I do not have any cases along these lines.

Mr. FLEMMING: I would like to ask in what part of Canada did this take place?

Mr. HENDERSON: In the province of Newfoundland.

Mr. BALLARD: I assume from the wording here that the collector is an employee of the Department of National Revenue. Is that right?

Mr. HENDERSON: Yes. He is the collector at the port of entry.

Mr. BALLARD: Secondly, you say that the penalty includes the amount of unpaid customs plus, in this case, the value of the boat?

Mr. HENDERSON: That is right.

Mr. BALLARD: Can we assume, then, that this was a pleasure boat as opposed to a cargo boat?

Mr. HENDERSON: No, I think it was a vessel suitable for, or designed for, or intended to be used in the coastal trade up and down the Newfoundland coast.

Mr. BALLARD: As a passenger boat or a cargo boat?

Mr. HENDERSON: I suppose passengers and cargo and so forth going between the various outports.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, this seems to be a very important matter and there is a great deal involved here. I would suggest that a small subcommittee of, shall we say three, be set up to study this matter. It is certain that if we take time to discuss it in the Committee of the whole, we are going to use up a great deal of time. I would suggest that a committee of Mr. Baldwin, Mr. Flemming and Mr. Bigg give this matter consideration. They have

all had the advantage of legal training and might be able to offer some valuable advice on how we should proceed in this matter.

The CHAIRMAN: Thank you for your suggestion, Mr. Thomas. I think it would be in order that these three gentlemen—Mr. Baldwin, Mr. Flemming and Mr. Bigg—make a complete study of this and be prepared to cross-question the witnesses when we have them before the Committee. We will detail those three to have this well in hand. Before we leave it, I think Mr. McLean has a question, then Mr. Noble and then Mr. Muir.

Mr. McLEAN (*Charlotte*): It seems to me it all revolves around responsibility. Was it the collector's responsibility to enter the vessel and take it on his own responsibility?

Mr. HENDERSON: The responsibility was assumed, from the outset, by the headquarters of the Department of National Revenue, with the collector being instructed to issue the permit. The collector issued the permit only to find that as a result of having carried out instructions, he subjected himself to the penalty provided by section 235(1) of the act and exposed himself to a penalty of \$50,391.

Mr. McLEAN (*Charlotte*): Then the responsibility lies with the department, not with the collector?

Mr. HENDERSON: Yes. I would not think there was any question of that at all.

Mr. NOBLE: The collector exposed himself to a penalty for what head office did.

Mr. HENDERSON: Yes; for what head office did.

Mr. NOBLE: Mr. Chairman, would it be fair for the Committee to ask who the owner of the ship is?

Mr. HENDERSON: I cannot see any objections to that. Mr. Long will have it in the file here. Mr. H. W. C. Gillett.

Mr. FORBES: How big a boat is this and what form of trade was it carrying on, passenger, freight, express?

Mr. HENDERSON: I do not believe we have the precise specifications, Mr. Forbes. It was a small boat destined for the coastal trade up and down the outports of Newfoundland and involving, I assume, passengers and gear of various descriptions.

Mr. FORBES: Then it is not a fishing vessel?

Mr. HENDERSON: No, sir. It is described as a coastal trading vessel.

Mr. FORBES: I did not understand that.

Mr. MUIR (*Lisgar*): I would just like to ask the Auditor General if we can assume that the duty has now been paid?

Mr. HENDERSON: Yes, I believe the post-dated cheques have all been cashed and paid by the state.

Mr. MUIR (*Lisgar*): The other question is, the collector, having been instructed to allow this discrepancy to happen, had he refused, would he have jeopardized his job?

Mr. HENDERSON: I think that is a question which would have to be directed to the department. I do not know what the answer would be on that.

The CHAIRMAN: I would suggest we leave it until we have the witnesses before us. Agreed?

Mr. BIGG: Regarding this three man board, "everybody's responsibility is nobody's responsibility". I think if we are going to appoint this board, somebody should be appointed chairman immediately or else there will be no convening of the group.

Mr. CAMERON (*High Park*): As you are having a legal committee set up to investigate this, it might be just as well to include a Liberal member on the Committee instead of having all three members Conservatives.

● (10.00 a.m.)

The CHAIRMAN: I agree with you, Mr. Cameron. I do not put any labels on these gentlemen at all. I just call out their names. But that is a good suggestion.

Mr. McLEAN (*Charlotte*): Why do we not ask Mr. Cameron? He has had legal training.

Mr. CAMERON (*High Park*): I would not be able to function. I have more than I can do now. It does not have to be a lawyer. Mr. McLean is an excellent business man and this is a business transaction. Why would Mr. McLean not be a good member to have on the Committee?

The CHAIRMAN: We have Mr. Baldwin, Mr. Flemming and Mr. Bigg. Mr. Cameron, are you sure you would like to decline?

Mr. CAMERON (*High Park*): Yes, I am sorry.

The CHAIRMAN: How would it be if the Vice-Chairman of the Committee, Mr. Lefebvre, were nominated?

Mr. LEFEBVRE: If Mr. McLean is willing, sir, I am quite willing to stand aside for him.

The CHAIRMAN: Fine. Mr. McLean.

Mr. BALDWIN: Mr. Chairman, would the terms of reference be wide enough to permit us to get in touch with the department officials, not to conduct an examination of them but, at least, to make sufficient inquiries of them so that we can make an adequate report?

The CHAIRMAN: I am sure that would be in order.

Mr. BALDWIN: This would be considered as being included. Fine.

The CHAIRMAN: Agreed.

Mr. THOMAS (*Middlesex West*): What I had in mind, Mr. Chairman, was that this Committee or subcommittee could look over the matter and recommend whether or not we should call the departmental officials. If it is recommended and the officials are called, I think they should appear before the whole Committee.

The CHAIRMAN: Paragraph 70, next item.

70. *Remission of duties on certain motor vehicles and parts.* Sections 22 (1) and 79 of the Customs Act, R.S., c. 58, as amended, read as follows:

22. (1) Unless the goods are to be warehoused in the manner by this Act provided, the importer shall, at the time of entry pay down, or cause to be so paid, all duties upon all goods entered inwards; and the collector or other proper officer shall, immediately thereupon, grant his warrant for the unloading of such goods, and grant a permit for the conveyance of such goods further into Canada, if so required by the importer.

79. No person shall make, nor shall any officer accept, any bond, note or other document for the purpose of avoiding or deferring the actual payment of duties legally accruing on goods imported into Canada, or arrange for deferring payment of such duties in any way, unless such goods are entered for warehouse, and duly deposited therein according to the laws and regulations governing the warehousing of such goods.

Order in Council P.C. 1963-1/1544 of October 22, 1963, passed pursuant to section 22 of the Financial Administration Act, remits all customs duties payable with respect to certain motor vehicles and motor vehicle parts to the extent by which the Canadian content value of vehicles and parts exported by the importer in three designated periods exceeds the Canadian content value exported during the base year November 1, 1961 to October 31, 1962.

In actual practice the department generally refrains from exacting payment of duties at the time of importation and waits for a period of several months to one year or more until the extent to which the importer is able to comply with the export conditions as set out in the remission order is determined. To the extent that the importer cannot comply, he must pay the duties.

In effect, the department is deferring payment of duty until such time as the amount, if any, which the Governor in Council has remitted is determined, and it is the Audit Office view that the Department lacks authority to do this because of the requirements of sections 22 (1) and 79 of the Customs Act.

Mr. HENDERSON: Mr. Chairman, No. 70. Remission of duties on certain motor vehicles and parts. I am pleased to be able to tell you that, following my statement in this note, we considered the department lacked authority to defer payment of duty in these cases because of the requirements of the Customs Act. Amendments were introduced in the House to the Customs Act in 1965, whereby statutory approval has since been given to this practice and the department now has the authority to follow the procedure that I have outlined. In other words, they took note of my observation and introduced an appropriate amendment to the Customs Act. Therefore, I do not suppose we need to take any time in discussing this particular one unless any members have any questions.

I should like to interject paragraph 71 although I know you marked 1965 on it, Mr. Chairman. I can make a similar report on this one. It was my mistake in mentioning it at the last meeting as being a 1965 item.

71. *Refund of sales tax on materials used in construction of certain buildings.* Section 47A of the Excise Tax Act, 1963, c. 12, reads as follows:

Where materials have been purchased by or on behalf of

- (a) a school, university or other similar educational institution for use exclusively in the construction of a building for that institution, or
- (b) any organization for use exclusively in the construction of a building for that organization that is to be used exclusively or mainly as a public library operated by or on behalf of that organization on a non-commercial basis,

and the tax imposed by Part VI has been paid in respect of those materials, the Minister may, upon application by such institution or organization in such form as the Minister prescribes made to the Minister within two years from the time the materials were purchased, pay to such institution or organization an amount equal to that tax.

Because an actual tabulation of the sales tax paid on the many items entering into the construction of a building is extremely difficult, it was the opinion of the department that the arrangements by which educational institutions could obtain a refund of sales tax must be simplified.

Accordingly Order in Council P.C. 1964-1/692 of May 12, 1964 approved a formula for determining sales tax refundable on materials used exclusively in the construction of buildings for schools, universities or other similar educational institutions or public libraries, to be used by persons entitled to a refund of sales tax pursuant to the provisions of section 47A as an alternative to the present standard refund claims procedure. The formula is designed to determine the approximate value of taxable material in a building and to estimate the amount of the refund that may be claimed.

Section 47A directs the Minister to pay an amount equal to the tax that has been paid and there does not appear to be any authority in the Excise Tax Act to pay a refund based on an estimated taxable value of materials incorporated into a building.

71. *Refund of sales tax on materials used in construction of certain buildings.* Again, you will note the basis on which I questioned the propriety of the government's action here. This situation, I can advise, is the subject of budget resolution 15 with respect to the Excise Tax Act, which is outlined on page 3399 of *Hansard* of March 29, 1966. In other words, the budget resolution has been introduced which, if approved, will provide proper authority for the department to follow the procedure which I criticized in this section. I think, again, we can pass that one over, sir.

Paragraph 72, Refunds of duties and taxes on estimated basis.

72. *Refunds of duties and taxes on estimated basis.* In order that Canadian airlines may be in a tax position comparable to foreign airlines, the Governor in Council, under authority of section 22 of the Financial Administration Act, grants remission of duty, sales and excise taxes paid on parts, equipment and consumable maintenance stores for aircraft operating in international service.

The Department of National Revenue finds it administratively impractical in some cases to determine actual quantities to which remissions should apply and so relies on considered estimates in calculating the remissions to be granted.

A similar situation exists with respect to refunds to provincial governments of taxes paid indirectly. These too are estimated carefully for refund purposes in order to avoid excessive clerical costs.

If these practices, which are not now recognized by the taxing statutes, are to continue they should receive legislative sanction.

Again, my observation here, namely, that the practices should receive legislative sanction, has been recognized and provided for in the budget resolution 15 to which I referred earlier. I am happy to be able to tell you that that observation has been also adopted by the government.

Item 73 is a 1964 item only.

73. *Refund of duty paid on goods diverted to use other than that for which they were imported.* In a number of cases the customs tariff provides alternative rates of duty on certain goods, depending on the use to which they are to be put when imported.

No specific authority is contained in the Customs Act under which the department may grant refunds in cases where goods were entered under an item of the tariff, upon payment of duty at the rate applicable to such goods, and subsequently diverted to a use which would have entitled them to entry under a different tariff item had they then been imported. Nevertheless, the department as a matter of equity has adopted a policy of making refunds in such cases, treating the original payment as "duty paid in error".

It is the view of the Audit Office that if this policy is to be continued it should have legislative sanction. Refund of duty paid on goods diverted to use other than that for which they were imported.

As stated here, the department, as a matter of equity, has adopted a policy of making refunds in cases like this, treating the original payment as duty paid in error. Section 43 of the Customs Act does confer quite wide authority on a dominion customs appraiser and on the Deputy Minister to re-determine tariff classifications and for refunds to be made on the basis of such re-determinations. However, my officers and I do not believe such authority can be exercised in respect of the deliberate diversion of imported goods to a use other than that declared at time of their entry on the ground that such diversion should be regarded as a kind of error. This is why we say here that if this policy is to be continued, it should receive legislative sanction. There has been no action taken on this observation thus far by the government.

The CHAIRMAN: If I may interject here, does the department take note of these suggestions made by the Audit Office? Do they ask you for your legal opinion on such matters? What stand does the department take on this when you bring it to their attention?

Mr. HENDERSON: The Department of National Revenue, Mr. Chairman, is very co-operative. We have some very useful discussions with them on these points. They have their own legal advisers in the department from whom they obtain opinions and, to the extent that I deem desirable, I consult my own legal advisers. It may interest you to know that with respect to the last three points, which have since been adopted by the government, in each case I consulted my legal advisers who supported my position. On this particular one that you have

now, paragraph 73, I also consulted my legal advisers who confirmed the correctness of my position to me.

Mr. BALDWIN: Mr. Chairman, I recollect that we had the benefit of the views of Mr. Sim, I think it was, last year or the year before. He came before us and was very frank in a discussion of this matter and a number of other matters, including the sales tax and excise tax. I think he quite frankly admitted that the department had, in its opinion, to deviate from the different statutes, in many instances, because the department thought this was the only practical way. I think he went as far as to say that for a number of years he felt the statutory changes should have been made and this had been suggested to the various governments but nothing had been done. This is my recollection now of what Mr. Sim said at, I think, his last appearance shortly before he retired. He made no bones about it. He said, "Well, we are not following the statutes in many instances but we found, through practice and experience, the only way to achieve the results are to do it this way. We would like the governments to make the statutory changes but they do not do it." This is my view. I do not know whether other members of the Committee were here at that time but that was exactly the impression Mr. Sim created.

Mr. HENDERSON: There are some recommendations outstanding in the follow-up report on just this point. I believe the sales tax basis is the one Mr. Winch is particularly interested in. This will come up in the 1965 report. They have not been able to arrange for that to be given statutory sanction yet, but we shall be returning to that subject when we hit the 1965 report.

Mr. BALDWIN: I just wanted to say this because, quite often, criticism is heaped on the civil servants—sometimes correctly. However, I think in many of these cases the civil servants know what the problem is but the government simply refuses to enact the necessary legislation. I believe this is one of the problems this Committee must face.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, it seems to me that we should have control of these things as we go along and not let them hang fire. If a problem should be deferred for consideration, can we not make a note to that effect and have the matter brought before us again when we draw up our report?

The CHAIRMAN: We will make a note of this and when we have the witnesses from that department here, we will ask them about it and refer to it again. There will be a note made to include it in our follow-up report.

Mr. THOMAS (*Middlesex West*): Then we can just defer it for further consideration at a future date.

The CHAIRMAN: That is right. We are not overlooking it.

Mr. HENDERSON: The next one is paragraph 74 and has to do with the possible loss of revenue when goods lose tax-exempt status.

74. *Possible loss of revenue when goods lose tax-exempt status.* Equipment is sometimes imported to be leased to an institution which is exempt from duty and sales tax, with ownership remaining with the importer.

In such cases the department requires that the importer be in possession of a lease commitment from a tax-exempt institution and that a copy of this be

filed with the relative customs import entry. Entry is also contingent on the equipment being exported under customs supervision on expiration of the lease or duty being paid on an appraised value with allowance for depreciation. The department permits the transfer of the equipment from one tax-exempt institution to another but if the equipment is warehoused it loses its exempt status and duty must be paid.

Similar situations exist where there is entitlement to make domestic purchases free of sales tax. Should any article so purchased be later transferred to an end use that is not exempt from tax, either the new purchaser or the vendor must report and pay the proper tax.

Having laid down the rules governing goods which lose their tax-exempt status, the department placed on the owners the onus for reporting any duty or tax payable and no departmental control of non-tax paid equipment or goods was maintained. Consequently it is possible for equipment or goods to lose tax-exempt status without this coming to the attention of the department, in which case there would be a loss of revenue to the Crown.

This is purely a 1964 item. This question was raised by us as a result of having noted refunds of sales tax on equipment imported to be leased to public institutions where ownership remains with the importer. Such equipment is exempt from duty and sales tax, as you probably know. We inquired why taxes are being paid on the articles when the importer or his customs broker, according to the department's own arrangement and direction, is always supposed to be in possession of proper lease commitments or documents exempting the import from any duty and sales tax. In advising us on these particular cases, the department explained, the refunds we had questioned were due to the imports having been incorrectly classified, in the first instance. We then inquired into the manner in which the department maintained supervision over this equipment in order to determine its end use and thereby protect revenue to the Crown. The department explained to us how the importer undertakes, within the terms of section 104 of the Customs Act, to report to Customs any change in the circumstances which would disqualify the goods for treatment under the item. In addition to this responsibility of the importer, the department added, that any person who diverts the goods for use other than that for which imported is also held responsible for reporting such diversion to the nearest Collector of Customs and Excise. They said that the local port officers are in the best position to know the importer's circumstances and the use of the goods entered under duty-free classification. I felt, therefore, I must point out that it is possible for equipment or goods of this type to lose their tax exempt status without this even coming to the attention of the department, in which case there would be a loss of revenue to the Crown.

This is something on which the department could well be invited to express views when they appear before the Committee. I understand there is no disagreement by them with our approach. It has just been found, over the years, that this was the best way to tackle it. They do not disagree with us that there could, in fact be loss of revenue to the Crown.

The CHAIRMAN: May I ask a question here? Could there not be a breakdown between the local tax collector and head office here in Ottawa? Does the local officer not have to report each and every case where he exempts any goods from tax exemption? Is there not a tie-in between the local port office and Ottawa?

Mr. HENDERSON: I will ask Mr. Crowley, my director in charge of revenue if he could answer that.

Mr. H. G. CROWLEY (*Audit Director, Auditor General's Office*): Yes, Mr. Chairman, when these goods come in, and they are under a tax exempt item of the tariff, then automatically the investigations division is supposed to, in time, follow up the disposition of these articles and if the end use becomes taxable, then they try to follow it up and obtain the tax. In general, the department finds it very difficult to follow up all these articles and, as the Auditor General has mentioned, he has brought it up in order to draw the attention of the Committee to the fact that there is a possible short fall of revenue there.

Mr. MUIR (*Lisgar*): Is there a possibility that it will cost more to collect this delinquent tax than it is worth?

Mr. HENDERSON: Yes, that would be possible and can often be the case, but I do not think that that necessarily precludes me from bringing the matter to attention, Mr. Muir.

Mr. TARDIF: Then the law should be changed. If the law states it has to be collected, it has to be collected, regardless of how much it costs.

Mr. HENDERSON: I agree with that, Mr. Tardif.

The CHAIRMAN: It is a very important matter, I would say. It could, sometimes, be a big item.

Mr. HENDERSON: It could be. You might wish to question the witness from the department on this point. It does not call for any action other than an observation by the Committee, but you might wish to wait until you hear what they say from the department.

Paragraph 75. Loss on buildings abandoned.

75. *Loss on buildings abandoned.* In paragraph 86 (11) of our 1961 Report, reference was made to the construction of two houses at the customs port of Pigeon River, Ontario, in 1957 at a cost of \$45,000. At that time one of the houses had not been occupied and the department was paying the cost of fuel oil and electricity in addition to the regular expenses of upkeep. Two other houses had been built for Customs-Excise officers at this port, one in 1950 at a cost of \$16,000 and one in 1954 at a cost of \$21,000. Two houses had also been built by the Department of Citizenship and Immigration in 1955 and 1956 at a cost of \$50,000. A dormitory and a warehouse erected in 1947 and 1951 respectively, cost \$11,000. The cost of these departmental buildings at the site of the customs port thus amounted to \$143,000, exclusive of the cost of land. In the period when the houses were available for occupancy, one had been vacant for seven months, one for twelve months, while the one mentioned in the 1961 Report was occupied for only nine months in its six years of existence.

In September 1963 a new bridge was constructed over the Pigeon River and the customs port was moved to the new location eleven miles to the east. The question of moving the six houses was considered but because of the excessive cost of such an operation it was decided to abandon the houses and their related buildings. Departmental officers now live in or near Fort William or Port Arthur and each receives a daily mileage allowance for commuting between his home and the port—a distance of approximately 40 miles.

The houses were declared surplus in November 1963 and turned over to Crown Assets Disposal Corporation which has since disposed of them for \$8,145 on the condition that they be removed from the site. The department has furnished us with the following reasons for this stipulation:

- (1) to have sold the buildings without such a requirement might have led to their occupancy, thereby aggravating the problem of uncontrolled border crossing while the old bridge remained in place;
- (2) the Ontario Department of Highways was unable to give any assurance that the dead-end road leading to the old bridge site would be maintained;
- (3) the possibility existed that the provincial government might include the area in question in the development of a provincial park.

The land on which the buildings had stood was declared surplus to Crown Assets Disposal Corporation in October 1964.

The CHAIRMAN: This is paragraph 65, I have marked.

Mr. HENDERSON: That is my fault again, gentlemen.

Paragraph 75. Loss on buildings abandoned.

(10.15 a.m.)

We did mention that as going forward in 1965, because we got a note on the same subject, but they are different buildings, different places, different treatment. With your permission I suggest that you might like to dispose of this one now. The note describes how in November, 1963, 6 houses and three double garages, including two houses belonging to the Department of Citizenship and Immigration at Pigeon River, Ontario, along with a dormitory, warehouse and pump house, all of which originally cost \$143,000, exclusive of land, were turned over to Crown Assets Disposal for disposal on condition that they be removed from the site. The buildings, as you will see, were then sold for \$8,145. When we discussed this situation with the Department, we stated that it seemed obvious to us that the houses, together with the land on which they stood, might have commanded a much greater price if it had not been for the requirements that they be removed from the site. I should tell you that the department took issue with us over this statement, saying that if that were so, one must infer that the department's handling of the situation resulted in some undetermined loss to the crown. In my opinion, the facts clearly indicated that it did. The department's explanation, as stated on page 38, is that the reason this stipulation was imposed was to have sold the buildings without such requirement, might have led to their occupancy thereby, as they say, aggravating the problem of uncontrolled border crossing while the old bridge remained in place.

Mr. TARDIF: I wonder, Mr. Chairman, when the new bridge was planned. A new bridge is normally planned some years ahead of time. I am wondering whether the new bridge was proposed or planned before they built these houses.

Mr. HENDERSON: I think the provincial government comes into the problem right at that point, Mr. Tardif. The department of highways, as you will see under No. 2, is not able to give any assurance that they will maintain the roads.

Mr. TARDIF: Yes, but previous to that decision being made by the provincial government, there must have been some planning for that bridge ahead of time, unless it is a very small bridge.

Mr. HENDERSON: Mr. Crowley, do you have any information on that? We can find that out, Mr. Tardif.

Mr. CROWLEY: Mr. Chairman, the files do not indicate anything in that regard, at least to the question Mr. Tardif asked. In other words, these houses were built but there was no question, at the time, as far as we can tell, of the proposed bridge at the new site.

Mr. LEFEBVRE: Mr. Chairman, owing to the fact that we also have an item back on page 27, which involved the Crown Assets Disposal Corporation, where we have a piece of equipment which sold for \$20, the original cost being \$15,000, and here we have some houses and dormitories which cost \$143,000, being sold for \$8,000, maybe it would be a good idea—there may be other items in this book affecting this particular Crown company—to have a day devoted to having witnesses here from the Crown Assets Disposal Corporation? Either they are not advertising their goods for sale in the right way or some error is being committed. We seem to be selling government items at a very small price.

The CHAIRMAN: I think that is an excellent idea, Mr. Lefebvre. I am wondering if the Crown Assets Disposal Corporation handled these houses in this case?

Mr. HENDERSON: I am not too sure.

Mr. TARDIF: It was turned over to Crown Assets.

Mr. LEFEBVRE: It was declared surplus in November, 1963, and turned over to Crown Assets Disposal Corporation which has disposed of them for \$8,145.

The CHAIRMAN: That was borne out.

Mr. SCHREYER: That sum of \$8,000 does not include the warehouses dormitories, et cetera, does it?

Mr. HENDERSON: I believe it included all of the buildings, Mr. Schreyer but it did not include the land. The land was declared surplus in October, 1964 and has since been sold separately. All the properties on the land were sold, as I understand it, for \$8,145.

The CHAIRMAN: It was a real bargain.

Mr. TARDIF: It might be a cause for smuggling. Then they sold the land to whom? To people who promised not to do any smuggling?

Mr. HENDERSON: Mr. Crowley states that the Province of Ontario bought the land.

Mr. FORBES: How much did they receive for the land? We might as well have the whole answer.

Mr. HENDERSON: We can obtain that information, Mr. Forbes. It is not in our working papers at the moment. That would be in the 1965 year, you see but we will obtain it.

Mr. FORBES: I would like to suggest something. The last time we had the Crown Assets Disposal Corporation representatives before us, they indicated to us, if my memory serves me right, that they do not sell anything. They accept it on bids on the basis of tender. If you want something, you just bid so much. This clears up the suggestion that they sell something. I understand they do not sell anything. They just accept bids on it.

Mr. LEFEBVRE: They auction them or they accept bids. Perhaps there are ways in which they can attract better bids, sometimes?

Mr. FORBES: I would say they have not got much sense of values.

The CHAIRMAN: These are questions that can be put before them.

Mr. HENDERSON: There was a subcommittee, Mr. Chairman, in 1964, which looked into the disposal of surplus defence equipment. You will recall that the realization from that was considerably less than the cost and the Committee was concerned about it. In fact, it is all mentioned in the followup report so that if the officials do come before the Committee, it would be useful, perhaps, to address some questions to them with respect to that situation. They have taken some remedial steps which I have mentioned.

Mr. LEFEBVRE: Could we set aside all the items in this book that pertain to Crown Assets Disposal Corporation, perhaps, and wait for the day that we can have them here?

The CHAIRMAN: It will take two days to do it.

Mr. BIGG: I might just suggest, on that general subject, that I think the whole idea would be of benefit to the crown if we put the Crown Assets Disposal Corporation on a percentage basis, the same as any other auctioneer. If they were to get even a generous portion such as 25 per cent of the total amount of sales, they would be encouraged to sell at the highest price and would get very fair coverage for what they had done. I am sure the crown would benefit in the extreme.

Mr. MUIR (*Lisgar*): If you are going to pay 25 per cent to the Crown Assets Disposal Corporation salesman, I would like to be the first applicant for the job.

Mr. BIGG: At the present time they are making, in some cases, 98 per cent. They will buy an airplane for \$1.00 and sell it for about \$3,000.

The CHAIRMAN: We are just leaving item No. 75. I have put a note beside it saying the situation is very bad and certainly needs looking into.

Mr. HENDERSON: Paragraph 76 has been put forward to 1965.

Paragraph 77 has to do with the Post Office.

77. *Waiving of postage charges.* Section 22 (1) of the Financial Administration Act reads:

The Governor in Council, on the recommendation of the Treasury Board, whenever he considers it in the public interest, may remit any tax, fee or penalty.

The Post Office Department has at no time made use of this section. Instances occur from time to time where for one reason or another, but particularly because the second class mail regulations are extremely complex,

errors in the application of postal rates have resulted in under-collections of postage revenue. When such an error is detected the practice has generally been to impose the correct rate from the time the error was noted and to forgive the past.

The Post Office Department considered the waiving of charges for postage to be an administrative discretion, but in our opinion it is not within the department's power to exercise discretion in waiving a charge for postage that is properly payable. Any relief to be given is the prerogative of the Governor in Council under section 22 of the Financial Administration Act.

It is explained here how the Post Office Department has considered the waiving of charges for postage to be an administrative discretion. In our view, however, it is not within the department's power to exercise discretion in waiving a charge for postage that is properly payable. Any relief to be given here would seem to us to be the prerogative of the Governor in Council under section 22 of the Financial Administration Act. I can advise the Committee that I now understand that the department has since regularized this situation. During the past fiscal year, we have noted several Orders in Council passed under section 22 of the Financial Administration Act authorizing remissions of postage charges. These usually represent the difference in postage between the third class and second class rates on issues of various publications so that that matter has been taken note of and remedied by the Post Office.

The CHAIRMAN: May I ask, did this waiving of charges appear very often in the Post Office Department?

Mr. HENDERSON: Mr. Crowley, could you answer that question, please?

Mr. CROWLEY: What would happen? We would be unable to answer specifically to that, Mr. Chairman. What happens quite often, all through the country, is that a newspaper or a publication is assessed at a lower rate than they should be. The amounts may be small in some circumstances. In other cases the amounts would be rather large. Generally these cases would not come to our attention unless we were visiting a post office and then we would note them. That is how this note originated. Wherever these situations occur now, and it is an error on the part of the department, we have noticed lately that if they cannot collect or they find there is a hardship or that they should not collect for some reason, the department goes to the Governor in Council and obtains a remission under section 22 of the Financial Administration Act. That regularizes the situation. As Mr. Henderson has mentioned, we have noted quite a number of these coming through lately. This solution satisfies us.

The CHAIRMAN: The error first occurs in the Post Office Department?

Mr. CROWLEY: It would occur in the local post office because the post office rates are very involved and complicated. The postmasters find it, at times, very difficult to apply the regulations. At times, these errors will occur. That is the usual case.

Mr. NOBLE: Mr. Chairman, if I interpret this properly, it means that if the postmaster makes a mistake in levying the right amount of postage, the customer is the one who suffers. Is this right?

Mr. CROWLEY: If he makes a mistake on the side of the publisher, or whoever owns the newspaper, of course, the publisher gains. Usually, the publisher has been assessed a rate lower than is called for by the regulation.

Mr. NOBLE: That is not the point I am trying to make. I am trying to make the point that the man who uses the mail is penalized. Is that right? Is he penalized for the mistake the postmasters make?

Mr. CROWLEY: No, because the department recognizes what has really happened. So, rather than penalize the publisher, they will go to the Governor in Council and obtain a remission. In other words, it is remitted. For instance, we will say that there has been a mistake of \$125. The rates, over a period of time, have been applied at a lower rate than they should have been or that was called for by the regulation. Then, if they feel it is not the fault of the publisher and circumstances mitigate the case, then they will apply to the Governor in Council, obtain a remission and the debt is wiped out. They will, at the same time though, apply the proper rate to the case in point.

Mr. BIGG: Is it not so that in some cases there are different rates for the size of the piece of paper? If it is seven inches by ten, it is a certain rate and if it is seven inches by eleven, it is another? In a busy week the postmaster might be putting through seven by eight at a certain rate and the inspector comes around and inquires how much is being charged for that folded piece of paper and finds out it is wrong?

Mr. CROWLEY: As Mr. Bigg has mentioned, everything depends on the size, quantity, volume, advertising and all that sort of thing.

Mr. BALLARD: It has been mentioned that certificates of remission have been issued lately in this connection.

Mr. HENDERSON: Under section 22 of the Financial Administration Act.

Mr. BALLARD: I am trying to establish the amount involved in this sort of thing. Could you give me an idea of the largest remission that has been made within the last period under your review, the largest amount in dollars?

Mr. HENDERSON: I think what I saw in my last review of this was in the order of the figure Mr. Crowley mentioned, \$125-\$150 to the publishers of catalogues and special mailings which had been overcharged.

● (10.30 a.m.)

Mr. CROWLEY: I would imagine that in the last year we have noticed perhaps up to around twenty remissions. They would not be over \$5,000, I am sure of that. Most of them are small, but the odd one would run very high.

Mr. HENDERSON: Mr. Long has just been looking at the public accounts while you spoke, Mr. Ballard. He can give you some information.

Mr. LONG: Mr. Ballard, the law requires that all remissions of \$1,000 or over be published in the Public Accounts each year, and looking through this, I do not see anything for Post Office in 1964. No, I do not think there would be anything over \$1,000 in that year. But there are pages of them for customs and income tax of the departments.

Mr. BALLARD: One other question: Do you find a recurrence of this circumstance in particular post offices, or is the occurrence general throughout the country?

Mr. CROWLEY: I would not say it is in any particular one, and I would not say it is general. It is just like any type of error that might occur; it happens here. It might not happen in this area for another few years, it happens perhaps in Vancouver, Halifax. It is just the casualness of this type of error. But now the post office has been alerted to this and to the fact that they should settle this situation as far as the arrears are concerned immediately. That is the situation with which we are concerned and they are alive to that now and are correcting it.

As I say, if they cannot recover it, and they feel that there has been some error or misunderstanding, it has usually been a misunderstanding between the publisher and the Post Office. Under those circumstances, the post office will apply to the governor in council for remission, or collect it.

Mr. BALLARD: There is no pattern of negligence that can be attributed to a particular post office?

Mr. CROWLEY: We have not noticed any pattern.

The CHAIRMAN: Mr. Ballard, might I suggest, and I am sure Mr. Crowley would be pleased to do it, that he make a list of those twenty remissions the amount of each and the location of each.

Mr. NOBLE: Mr. Chairman, I would like to ask the Auditor General if these errors are usually carried on until they are picked up by your department, or are they sometimes noticed by the postmaster himself after a period of time?

Mr. HENDERSON: We will pick them up in the course of our auditing of the larger post offices, or at headquarters, but also the department itself, we find, is pretty alert in cross-checking, too; they have their own internal inspection. They are usually caught by either one of those two ways.

Mr. NOBLE: I am thinking, if the postmaster inspector is alert, he should be able to pick them up; otherwise, it could be a tremendous loss to some person or some publishers doing a lot of mailing who may get on to this at the beginning of the year and carry on until pretty near the end of the year. It could amount to quite a sum of money.

Mr. HENDERSON: Yes, indeed it can. Have you any comments you want to add to that, Mr. Crowley?

Mr. CROWLEY: The only thing I would say, Mr. Chairman, is that when these cases are noted, we usually ask the department to alert all their postmasters because they have weekly bulletins that they send out, and in that way they bring to the attention of the postmasters from one end of the country to the other these little failures to collect. In that way, the postmasters will look over their accounts, or look over their latest publication figures, and correct them.

Mr. BIGG: Is this trend getting better? Do you have any comparative figures over the last ten years of this matter dropping, or anything like that?

Mr. CROWLEY: We can only say that as a result of our note they have been careful to at least adjust the situation. So I would say that the situation is getting better. It is improving.

The CHAIRMAN: If I may, I would like to ask Mr. Crowley about these 20-odd remissions that you found in the last year. Did your department find them, or did the post office audit department find some of them?

Mr. CROWLEY: No. Could I correct that, Mr. Chairman? The 20-odd remissions to which I have referred are cases where the post office themselves have come across these and have applied remedial measures. Prior to that we would notice the odd case in our audits. We would draw it to their attention. As a result of this audit note, now the post office would naturally come across these before we did, and quite often they know them before we strike them. As a result, they have got these 20-odd remissions.

The CHAIRMAN: Are you satisfied that the post office audit department are doing a good job on this?

Mr. CROWLEY: Yes, I would say that they are.

The CHAIRMAN: We now come to Item No. 78.

78. *Departmental decision not to dismiss an employee.* Section 57 of the Civil Service Act provides authority for the suspension of an employee during an investigation of alleged misconduct or incompetence. The procedure upon completion of the inquiry is prescribed in section 59 of the Act which states:

59. (3) Upon completion of the investigation or proceedings, as the case may be, the deputy head shall

- (a) if as the result of the investigation or proceedings he is satisfied that the employee has been guilty of misconduct or incompetence
 - (i) recommend the dismissal or demotion of the employee, or
 - (ii) suspend the employee for a further period not exceeding six months; or
- (b) if as the result of the investigation or proceedings he is not satisfied that the employee has been guilty of misconduct or incompetence, rescind the suspension retroactively to the time it was first imposed.

The officer in charge of a postal station was suspended under section 57 of the Civil Service Act pending investigation of a fire and alleged robbery. When an audit revealed extensive falsification of the accounts, the suspended officer admitted falsifying the cash accounts and accepted responsibility for a shortage of \$2,156. The department rescinded the suspension and retired the employee on the basis of his having reached 60 years of age (with the consequent entitlement to an immediate annuity under the provisions of the Public Service Superannuation Act) on the understanding that he would reimburse the Crown for the deficiency. Collection was made from the annuity.

If the employee had been dismissed for misconduct, his entitlement to a superannuation benefit, other than a return of contributions, would have been conditional upon a decision of the Treasury Board. In view of the provisions of section 59 (3) (a) of the Civil Service Act, quoted above, this would appear to have been the proper course of action.

Mr. HENDERSON: This is a 1964 item and deals with the case of an employee responsible for public funds who admitted to falsifying his accounts and his dismissal was recommended by his superior officer. There was a total shortage

of approximately \$4,808 which was reduced by reason of a fire which destroyed the records to an amount of \$2,156 and the employee accepted responsibility for this shortage in that amount. It was decided however, as explained in the note, not to dismiss this employee, since this would eliminate his pension, on condition that he made good the loss.

As stated in the note, collection of the loss was made from the annuity subsequently paid to the employee. This case was noted here because it indicates how the effective section of the Civil Service Act should, in our opinion, have been applied.

It seemed to us that there should not be any compromise in invoking proper disciplinary action as provided for in the public service where responsibility for the handling of public funds is concerned.

The CHAIRMAN: I am sure there will be some questions on this.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, in view of the fact that the deficiency was collected from the man's annuity, it seems to me that possibly the officials of the department concerned used reasonable discretion. Had they put the man in jail, the amount he got away with would never have been recovered and, as far as straight punishment is concerned, I do not know whether I could agree with Mr. Henderson's attitude that the full penalty should be invoked without mercy.

It seems to me that departmental officials should be left with some discretion. They recovered the money, the man is now on pension; he made a mistake and, as far as I am concerned, I would not be prepared to be too tough about it.

Mr. HENDERSON: I think perhaps I have not made my point very clear to you, Mr. Thomas, in this case. I am going to ask Mr. Long if he would amplify what I said.

Mr. LONG: Mr. Thomas, the point here was not that we were suggesting the man should have been put in jail or anything like that. The whole crux of it is in the last paragraph on page 40:

If the employee had been dismissed for misconduct, his entitlement to a superannuation benefit, other than a return of contributions, would have been conditional upon a decision of the Treasury Board.

Now what has happened is that the department has, in fact, taken a decision which, in view of the circumstances, we felt the Treasury Board should have taken. This is the point here. He would always get his contributions back, but the Treasury Board might not have let him have his pension.

The CHAIRMAN: Mr. Bigg, was this the first occasion. It says, "revealed extensive falsification". Does that mean that it happened several times, or was he caught the first time?

Mr. LONG: Maybe it had been going on for some time at the time they found him.

Mr. BIGG: The point that struck me as policeman is this. It suggests to me that this was a case of arson, as well, if he burned down the post office, or something, in order to cover up his tracks. It seems to me that the offence is much more serious than if he said, "This is an opportunity for me to get ou

from under. I have been falsifying petty accounts for years because I am an underpaid civil servant, and now here is a chance to get in the clear", and so he said, "Well, the records were burned" he threw them into the fire once it got going, but if he lit the fire, I would certainly take a much more serious view of it. This was endangering life, public property, and everything involved, and it might be a case where a much more serious action was called for, apart from his pension.

The CHAIRMAN: Mr. Long, what are the facts?

Mr. LONG: Well, I can read here from the paragraph we have. This was at the time of the investigation. It appeared that someone with keys had entered the office, opened the safe, which had a combination, emptied its contents of postal values into waste paper baskets, carried the baskets to the rear of the office and ignited the paper. The intruders had locked the door to the building when leaving.

Mr. MUIR (*Lisgar*): I was just wondering if, under the act, the deputy minister has the final authority to dismiss such an employee without an appeal to the Civil Service Commission?

Mr. LONG: He was not dismissed; he resigned. It is a case of, "You cannot fire me; I quit."

Mr. MUIR (*Lisgar*): Well, in the case I have in mind, the chap was dismissed. He was given an appeal by the Civil Service Commission, but it was the Deputy Minister who took the final authority to dismiss him, and I was just wondering if this was the usual procedure.

Mr. BALDWIN: There is a royal commission inquiring into the question of postal employees being dismissed without pensions. We might get some light shed when that commission has finished, Mr. Chairman.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, I think we should not get away from the principle involved here. I am not going to take back anything I said about mercy at all. We just finished a debate on the abolition of capital punishment. But the point at issue here is, as I understand it now from what Mr. Long has said, that the department should not have dealt with this man's pension without the consent of the Treasury Board.

Now, it is not a matter of mercy; it is a matter of law. And on those grounds, I think the objection is well taken. If it is the law that it should go through the Treasury Board before the pension is granted, I think this Committee should stand behind the law.

Mr. FORBES: Mr. Chairman, I am an ardent believer in the deterrent, and I do not think that the government should establish a precedent by being lenient with this man. If it did, all the employees would be taking money and going out to the Rideau Carleton and investing it in race tracks, and when they had recovered enough money they would pay it back. If they did not, they would keep the money. I think that it should be a well known fact that if you abscond with government funds you are going to be fired, lose your pension rights, and even something beyond that.

The CHAIRMAN: Would the former R.C.M.P. officer like to say anything? All right, Mr. Bigg.

Mr. FLEMMING: Well, Mr. Chairman, my question is this. In the last sentence that you read, you, Mr. Henderson, would agree that the course of action taken was the proper one? This would appear to have been the proper course of action.

Mr. HENDERSON: Yes, for the department to have taken it to the Treasury Board, because that is the machinery that is set up for it. That is the burden of my criticism here, and I hope that Mr. Thomas, perhaps, shares that now and would attribute a small modicum of the milk of human kindness to me.

Mr. FORBES: Mr. Chairman, everything that goes to the Treasury Board is being commuted anyway.

80. *Defalcations in the Malartic area of Quebec.* In 1960 former employees of the Department of Public Works in the Malartic area complained that the wages they had received from the department were less than had been reported for income tax purposes. A preliminary investigation of this circumstance indicated the probability that various types of irregularities had occurred in the years 1955 to 1960 in connection with a substantial number of minor river cleaning, wharf repair and construction projects carried out in the area. Subsequent investigations by the Royal Canadian Mounted Police have established that fraud was perpetrated in a number of ways involving both departmental employees and suppliers in connection with over 70 projects, and including payroll padding, fictitious and inflated suppliers' invoices, etc.

Since these defalcations first came to light, recoveries have been effected as a result of legal actions taken against employees and suppliers concerned. These recoveries, amounting to \$13,803 to date and involving 26 individuals and firms, are being reported for the first time during the year under review in the Statement of Losses (Public Accounts, page 43.29).

As the department turned over the investigations with respect to these losses to the Royal Canadian Mounted Police, it has not maintained records of the amounts for which each of the numerous individuals concerned was considered responsible. Consequently it does not have a calculation of the total loss involved or of the amount which, because of failure to recover, must in due course be charged to the Public Officers Guarantee Account.

We have pointed out to the department the information that will be required in order to finally dispose of these losses and understand that this is now being compiled.

● (10.45 a.m.)

Mr. HENDERSON: Item No. 79 on second class mail goes to 1965. Item No. 80 is 1964 only. The defalcations here have been of concern to us because, as I state here, no details were available showing the amounts to which each of the numerous individuals concerned was responsible. If an approach such as this were followed in cases of this kind, it would mean that parliament would receive the information at a very much later date than, we believe, the legislation contemplated. This is what has happened here.

It has been the practice of both the Treasury Board and the Audit Office to have such losses reported in the public accounts, when they occur, regardless of how inaccurate the amount, initially reported, might eventually prove to be.

The departmental officials acknowledged the correctness of this position and they took steps to conduct a closer examination into these cases, at our request, so as to establish, as accurately as possible, the amounts involved. In February, 1965, they advised us that on the basis of information then available, the best estimate that could be made of the total loss suffered by the Crown, in these cases, totalled \$77,243, and that of this amount recoveries to date total \$15,981. In accordance with our usual practice, therefore, a current status report on these cases was made at the Treasury Board at the close of the 1965 fiscal year. I believe that the Department of Public Works is still seeking to obtain recovery from these items. Is that not the case, Mr. Smith?

The CHAIRMAN: I am sure there are questions on this. I presume it was reported on T4 slips and they did not tally up with their actual wages.

Mr. HENDERSON: I do not think it was altogether that, Mr. Chairman. Perhaps Mr. Smith could outline very quickly the nature of this.

Mr. D. A. SMITH (*Audit Director, Auditor General's Office*): Yes, that was the circumstance which led to the investigation of these cases in the original instance; that is, the matching up of the reports of earnings with what certain employees knew they had actually received.

The CHAIRMAN: On the T4 slips?

Mr. SMITH: Yes, sir.

Mr. MUIR (*Lisgar*): I was just wondering if the Auditor General would tell us if any punishment was meted out to these people other than just to recover the money that they stole?

Mr. HENDERSON: I have a report here submitted to the Department of Public Works by the R.C.M.P. outlining the results of their investigation. As of the date of this report, which was in February, 1965, 96 charges had been laid, 75 convictions obtained, 13 had been dismissed, four had been withdrawn, one was pending judgment and three were awaiting trial. So there are a fairly large number of people involved in this.

Mr. LEFEBVRE: In the bottom paragraph there, Mr. Henderson, it says, "the department turned over the investigations with respect to these losses to the Royal Canadian Mounted Police". They have no records of what the amounts amounted to or to what people, because the R.C.M.P. have this information. In other words, the R.C.M.P. does not provide the Department with the information. Or did the Department request it?

Mr. HENDERSON: You are putting your finger right on it, Mr. Lefebvre. The R.C.M.P. report, and report very well, to all departments on the result of the charges that are laid and the results they have obtained. The actual computation, the actual maintenance of records as to these losses at their inception, it seems to me, was the basic responsibility of the department responsible. Therefore, they should have had these records rather than just waiting to see what results the R.C.M.P. brought back.

As you can appreciate, with some 96 individuals involved, it was a bit of a task to go back and to reconstitute those records. However, the deputy minister took a personal interest in it and caused it to be done, with the result that we now know the size of the potential loss and are applying recoveries against it. It

has been properly reported to Parliament in the manner that the Financial Administration Act contemplates. I am saying to you that it has been remedied, but I was concerned over the fact that the department, having turned it over to the R.C.M.P., had not established records at the time that we examined the books.

Mr. LEFEBVRE: This should not take place in the same fashion, in another case, which would be similar?

Mr. HENDERSON: I would hope not, sir. I would think it the responsibility of a department to establish what the losses have been and to follow it up; otherwise, you have no leadership brought to the solution of the problem.

The CHAIRMAN: I wonder if we could have Mr. Smith explain this part at the end of the first paragraph, including payroll padding? What did you discover under this heading?

Mr. SMITH: We did not discover this, Mr. Chairman. These facts were uncovered by the RCMP in the course of its investigations.

The CHAIRMAN: If it had not been for the RCMP, the Audit Department would not have caught it?

Mr. SMITH: That is possible, sir. I think the note refers to 70 projects. Actually, there were 64 projects and an aggregate amount of something less than \$220,000 was involved, so that the average amount involved in each project was something in the neighbourhood of \$3,000. Due to the comparative remoteness, it would not be feasible, of course, for members of the Audit Office staff to visit these sites and to spend time checking such small projects. The examinations are made in the course of our test examinations at the headquarters of the Department of Public Works in Ottawa. In the absence of suspicious circumstances, it might be somewhat unlikely that we would uncover these facts.

The CHAIRMAN: I realize the Chairman should not be asking questions, but what about the internal audit of the Department of Public Works? Where do they fit into this picture? They did not uncover any of this?

Mr. SMITH: No, these facts were not uncovered by checking prior to the time that the supporting vouchers were made available to our examiners.

Mr. BIGG: As we are checking the public purse, it also seems to me that there is a slip here somewhere. Money has been paid out, apparently, for which no work was done, and so there should be a recovery of wages there by somebody and, if not, at least the income tax should be paid. I would like to know if we cannot check up on that to see if these people are just being reprimanded or fined. Are the fines coming back to the federal government? Are the amounts of money paid back in unpaid wages and also in unpaid income tax? It seems to me that there is a possibility of a double loss here to the Department of National Revenue and, I think, something should be done.

Mr. HENDERSON: It might be a good idea if we were to furnish the Committee with an up to date picture on just where it stands at the present time. I think it would be a very useful exercise, Mr. Chairman, if we might be permitted to file that at a following meeting.

The CHAIRMAN: We will now take a question from Mr. Noble and from Mr. Flemming. If there are no further questions, we will conclude our meeting.

Mr. NOBLE: Mr. Chairman, owing to the great number of people involved in this, it does look like organized conspiracy. I am wondering if the man, or party, who is responsible to the Department of Public Works, was involved in this matter. Was it something he had nothing to do with? Where do we start from with respect to the Department?

Mr. HENDERSON: We might, with your permission, invite the department to answer that very point as part of the statement that I propose we prepare, in answer to Mr. Bigg's question, so that you see exactly what his status is today.

Mr. FLEMMING: My question concerns the fraud they say was perpetrated in a number of ways by employees. Is there any record of departmental employees, involved in fraud, having been disciplined in any way?

Mr. HENDERSON: That is a further question on which I should like to obtain the answer from the Department and have it put into this statement, Mr. Flemming.

Mr. SCHREYER: When the post office is faulted, in effect, for not maintaining records of the amount involved, it seems we are really expecting them to maintain records of estimates of what is considered to be involved. Is it not difficult for the post office to know?

Mr. HENDERSON: It is not the Post Office Department, Mr. Schreyer, it is the Department of Public Works.

Mr. SCHREYER: I am sorry, the Department of Public Works.

Mr. HENDERSON: They were unable to give us any figures as to the total amount of these defalcations and we were not able to compile any. That disturbed me because it is a very basic responsibility of the department, it seems to me, to make at least the best and closest estimate they can and then to follow through on the collections, and be able to check on what is outstanding at all times. They came along later, as I explained, and were able to compile this information. That has been our starting point and that is why I think it would be a good exercise to produce a statement, not only in answer to these questions, but also of the up to date figures.

The CHAIRMAN: Gentlemen, we are ready to adjourn. Our next meeting is Tuesday, May 10, at which time we will have the St. Lawrence Seaway Authority before us. You will have these reports and the long form reports from the Auditor General delivered to your rooms. I hope you will study them and come prepared to meet the St. Lawrence Seaway Authority.

Regarding the following meeting on May 12, I know Mr. Henderson will be away. Would it be wise for us to have the Department of Public Works before us concerning item 80, or would you like to be present for that, Mr. Henderson? Will Mr. Smith handle it?

Mr. HENDERSON: I think Mr. Smith or Mr. Long could handle it, if you wish to have them present. There are a number of other public works items coming up, however.

The CHAIRMAN: I think, while this is fresh in our minds, we ought to handle it.

Mr. HENDERSON: You might like to ask them about some of the further questions that are coming up right after paragraph No. 80.

The CHAIRMAN: If there is time.

Mr. NOBLE: Mr. Chairman, I think we should have the Auditor General here when dealing with Public Works.

Mr. HENDERSON: We could set up a date for that on my return.

The CHAIRMAN: All right.

If there is nothing further, will someone move the meeting be adjourned?

Mr. FLEMMING: I so move.

The CHAIRMAN: The meeting is adjourned. Thank you, gentlemen.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

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LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS
First Session—Twenty-seventh Parliament
1966

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

TUESDAY, MAY 10, 1966

St. Lawrence Seaway Authority Annual Report (1963 and 1964)
and Follow-Up Report of Auditor General

WITNESSES:

Mr. G. R. Long, Assistant Auditor General; Mr. W. A. Villeneuve, Assistant Audit Director; and from *The St. Lawrence Seaway Authority*: Dr. Pierre Camu, President, Mr. P. E. R. Malcolm, Vice-President, Mr. D. E. Taylor, Member, Messrs. J. T. Carvell and J. M. Martin,

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,	Mr. Leblanc (<i>Laurier</i>),	Mr. Thomas (<i>Maison-</i>
Mr. Ballard,	Mr. McLean (<i>Charlotte</i>),	<i>neuve-Rosemont</i>),
Mr. Bigg,	Mr. Morison,	Mr. Thomas (<i>Middlesex</i>
Mr. Cameron	Mr. Muir (<i>Lisgar</i>),	<i>West</i>),
(<i>High Park</i>),	Mr. Noble,	Mr. Tremblay,
Mr. Dionne,	Mr. Racine,	Mr. Tucker,
Mr. Flemming,	Mr. Schreyer,	Mr. Winch—(24).
Mr. Forbes,	Mr. Stafford,	
Mr. Gendron,	Mr. Tardif,	

(Quorum 10)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, May 10, 1966.

(6)

The Standing Committee on Public Accounts met this day at 11.05 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Baldwin, Bigg, Cameron (*High Park*), Dionne, Flemming, Forbes, Hales, Leblanc (*Laurier*), Lefebvre, McLean (*Charlotte*), Muir (*Lisgar*), Noble, Schreyer, Tardif, Thomas (*Middlesex West*), Winch (16).

In attendance: Dr. Pierre Camu, President, The St. Lawrence Seaway Authority; Messrs. P. E. R. Malcolm, Taylor, Beland, Carvell and Martin of the Seaway Authority; Mr. G. Long, Assistant Auditor General; and Messrs. Villeneuve, McMillan and Laroche of the Auditor General's staff.

The Chairman introduced Dr. Camu, president of the St. Lawrence Seaway Authority and members of that organization. Dr. Camu made a statement to the committee on the structure of the Seaway Authority and was questioned thereon.

The Chairman tabled the following items which were entered as exhibits:

Exhibit I—The St. Lawrence Seaway Authority Annual Report 1963

Exhibit II—Auditor General's Report to the President and Members on the examination of the accounts and financial statements for the year ended December 31, 1963 (Referred to as Auditor General Long Form)

Exhibit III—The St. Lawrence Seaway Authority Annual Report 1964

Exhibit IV—Auditor General's Report to the President and Members on the examination of the accounts and financial statements for the year ended December 31, 1964. (Also referred to as Auditor General Long Form).

Mr. Long and accompanying staff of the Auditor General's office were introduced to the Committee.

The 1963 reports were considered by the Committee including paragraphs 159 in the Auditor General's Report to the House of Commons for 1964 and paragraph 209 in the 1965 Report.

At 1.00 p.m., the questioning of the representatives of the St. Lawrence Seaway Authority and the Auditor General continuing, the meeting was adjourned to 3.30 p.m. this day.

AFTERNOON SITTING

(7)

The Committee resumed at 3.55 p.m., the Chairman, Mr. A. D. Hales presiding.

Members present: Messrs. Baldwin, Bigg, Flemming, Hales, Leblanc (Laurier), Lefebvre, Noble, Schreyer, Thomas (Middlesex West), Winch (10).

In attendance: (same as at morning sitting)

Ensuing from remarks of the President of the St. Lawrence Seaway Authority in his statement to the Committee at the morning sitting, the Chairman tabled a Summary of Future Traffic Estimates and Toll Requirements as Exhibit V.

The questioning on the 1963 Seaway reports concluded, the Committee then turned to those for 1964.

The Sub-Committee is to obtain from the St. Lawrence Seaway Authority further details covering the encroachment of crown land by the owner of a private oil pipeline as well as information from the Department of Transport on the original expropriation price of the individual's property.

The Committee took under consideration a suggestion to attempt the arrangement of an early agreement between the Canadian National Railways and the St. Lawrence Seaway Authority with respect to paragraph (a) under GENERAL page 19 of the Auditor General's report to the President and Members for the year ended December 31, 1964.

The questioning of the witnesses concluded, the Chairman adjourned the meeting to May 12, 1966.

Edouard Thomas,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, May 10, 1966.

● (11.05 a.m.)

The CHAIRMAN: Gentleman, we have an excellent quorum this morning, right on time and ready to start. I sometimes have trouble getting started on time but our trouble is to get the room on time.

As you know, we have with us this morning the St. Lawrence Seaway Authority representatives. Possibly the best way, in order to have some continuity in our meeting, would be to first of all introduce the members of the Authority to you and I think they, in turn, should know the members of our Committee. After that, I will ask Dr. Camu to give a brief outline of the St. Lawrence Seaway Authority. Following that, we would proceed with the long form report and have Mr. Long, the Assistant Auditor General, run through that briefly with us and you can decide whether you wish to ask questions as we proceed or to save your questions till the end and then we can direct the answers to members of the Authority.

First of all, I would like to introduce to the Public Accounts Committee the President of the St. Lawrence Seaway, Dr. Camu, who, we are very happy to advise you, as recently as April was made a Fellow of the Royal Society of Canada, which is one of Canada's most distinguished learned societies. It is nice to know that such people are heading Authorities of Government.

Now, Dr. Camu, if you would introduce the members of your Authority you have with you this morning, I will ask each of the members of our Committee to rise and introduce himself.

Mr. P. CAMU (*President, St. Lawrence Seaway Authority*): Thank you, Mr. Chairman. This morning we are a group of six here and the Authority is composed of three members, a President, the Vice-President, Mr. P. E. R. Malcolm here, and a member, Mr. D. E. Taylor, who is sitting right there. Mr. Malcolm is the Vice-President and Mr. Taylor is the other member of the Authority. So this is the complete Authority of three Board members.

We also have with us the Director of Finance and Accounting, Mr. J. M. Martin, and the Counsel for the Authority, Mr. J. T. Carvell, and the Secretary for the Authority, Mr. L. E. Beland. That is our group of six and we will be very pleased to answer any questions you ask, after I make a few points, if you will allow me to do so now.

Mr. LEFEBVRE: On a point of order, the public address system is not working again.

The CHAIRMAN: Mr. Clerk, would you attend to that matter and have the public address system working so that it will be in both languages.

Mr. Flemming, would you just start by naming yourself, followed by other members of the Committee.

Thank you, gentlemen. You can see we have a good cross section here of members from all parts of Canada and they are all vitally interested in the work of this Committee.

Mr. WINCH: Mr. Chairman, I was wondering whether perhaps, in order to expedite business, it would be agreeable that Mr. Long, as the Assistant Auditor General, draw to our attention, now, the factors under his branch that we should be making enquiries upon.

Mr. LONG: Mr. Winch, I do not think there is any particular criticism or matter that the Committee should take action on so far as we are concerned. I thought I might try to take you rather quickly through the long form reports, showing you the information that is given in them about the operation in each of those years. There are things of interest but I do not think there is really any particular criticism which is, I think, perhaps what you had in mind.

Mr. WINCH: Yes.

The CHAIRMAN: Dr. Camu, would you proceed, then, with an outline of the Authority's function?

Mr. CAMU: I wish to thank you and, for the benefit of this Public Accounts Committee, I would like to make a very few points.

The Authority is a Crown Corporation and, at the end of December last, we completed our seventh season of navigation. The Seaway was opened in 1959. We opened our eighth season on the 1st April, 1966. Geographically, we extend from Montreal to Lake Erie and we have two major divisions or sections. The first one is the Montreal-Lake Ontario stretch of the river and we call that the Eastern Region. The second one is the Welland Canal itself, which is called the Western Region. The Western Region also includes one lock located several hundred miles away,—the Canadian lock at the Sault. This is also part of our region.

We also are responsible for a few non-toll canals which are a part of the old system that was discarded, so to speak, in 1959. One of them is the Lachine Canal in Montreal, another one is the Cornwall Canal in the Cornwall area and the entrance to the old third Welland Canal at Port Dalhousie, as well as the Sault.

The toll sections of the Seaway are the Montreal-Lake Ontario section and the Welland Canal itself. These are the two and this is the main section under our own administration.

We have five locks on the Montreal-Lake Ontario section and the Americans have two, in up-State New York, near Massena. The Welland Canal, of course, has eleven locks, eight in line and three twin, near the Niagara escarpment. To operate these facilities, we have working for us approximately 1500-1600 people. Twelve hundred are operation and maintenance because our system is open night and day seven days a week for about 260 days a year, more or less, which is our season of navigation. The rest of the working force is located in three different points. Our headquarters is in Cornwall, Ontario, where we have a staff of about 150 people and most of our services are there. In Ottawa we have the head office for the three members of the Board and the

group you have here, plus a small clerical staff to administer to regions. We have headquarters at St. Lambert and at St. Catharines, Ontario.

● (11.15 a.m.)

Internationally, the set-up is as follows: the operations of the Montreal-Lake Ontario section are on a business-like partnership with the entity called the United States Saint Lawrence Seaway Development Corporation. It is an American entity, all by itself, with headquarters in Massena. They have about 160 people and they operate two locks on their side.

Our relationship is mostly business. We decide together when we open and when we close the season of navigation and we issue together the Seaway Manual to every vessel transiting the Seaway which contains all the circulars and regulations necessary for the safe transit of any vessel, large or small. We also combine in issuing press releases from time to time regarding traffic, which is usually every two months. We also publish together the annual traffic report, which was published about a month and a half ago.

I will now give you an idea of the traffic on the Seaway. I will use the standard cargo tonnage which is the easiest one. The traffic in 1959 was about 20 million tons and, seven years later, the year we have just completed in 1965, the cargo tonnage reached a high of about 43 and almost 44 million tons in the Montreal-Lake Ontario section and in the Welland Canal about 54 million tons. The traffic is composed of almost the same percentages year after year. That is to say, about 90 per cent are bulky commodities and 10 per cent general cargo. This varies a bit from one year to the next.

Two leading commodities are, let us say, the backbone of our traffic and these are grain and iron ore. These two together represent roughly 50-60 per cent of our overall traffic by cargo.

Unlike the Canadian National Railway, which is another Crown Corporation of the same status, we do not operate the ships. The Canadian National Railway operates trains on tracks but we just operate the waterway. The ships are owned by private companies—all kinds of them—and we just assure the safe transit of ships through our system. There are usually close to 7,500 or 8,000 transits in this season of navigation.

There are two groups of ships which make up our main customers—the big lakers, which are the carriers of bulky commodities, and the ocean ships. The ratio is about two-fifths ocean ships and three-fifths lake carriers. We also have smaller vessels in the system and pleasure craft as well.

The tolls we charge on the Seaway were approved in 1959 and we have been operating under that system since. It is a dual toll; there is one toll on the cargo, which is usually 4 cents per ton of what we call gross registered tonnage, and a toll on the cargo which is also a dual toll, 40 cents per ton of bulk and 90 cents per ton of general cargo. This is the way we get our revenue through tolls and I would say 95 per cent of our revenues, the other 5 per cent being based on some of the land we have on either side of the Seaway which is leased to warehouses and industrial facilities and so forth.

The tolls are now under review, together with those of the Americans, and we will have public hearings in Ottawa and Chicago at the end of the month and the beginning of June. We are looking for a 10 per cent increase on the

Montreal-Lake Ontario section. On the Welland Canal, by government decision way back in 1962, the tolls were suspended. We are now looking for, not a re-installation of the toll, but a per lockage fee, which is slightly different but would give us enough money to recoup at one time, around 1971, our cost of operation and maintenance of that canal.

The tolls we are looking for with the Americans is for a five-year period from 1967 until 1971, the new tolls which are part of our existing tariff.

In order to give you an idea of the magnitude of the Seaway, I will compare that with the Suez and Panama canals, which will give you an idea of how big or small the St. Lawrence Seaway is in proportion to the others. Suez is doing a business of about 175-180 million tons a year so it is really the biggest in the world. Suez has no locks. It is a straight channel where the maintenance and the dredging is the most expensive part and it allows ships to move from the Mediterranean Sea to the Red Sea. They have a very heavy outbound traffic of petroleum, of course, coming from the Persian Gulf to the European market.

The Panama Canal has locks and allows ships to move from one ocean to the other—from the Pacific to the Atlantic. The tonnage there is about 75-80 million tons a year.

Ours is also a system with locks. We have two sections. I mentioned to you a moment ago about the Welland Canal, whose tonnage is around 55 million tons, so it gives you an idea of the magnitude of these three canals, all of which are toll canals with comparable systems—not quite, but comparable.

To give you another idea of the international character of our operation, not only do we operate with the Americans but we have representatives from about 30 different shipping communities. In other words, about 30 different flags are the usual customers of the Seaway and commodities are coming from all over the world. Unlike the other two canals, however, the Great Lakes is like a reservoir, a group of five great lakes, and any ship going up the Seaway is trapped unless it gets out through the same way. It is not like Panama or Suez, where a ship can go through and then use it on the way back five years later. Ours is quite different in that respect.

There is another characteristic which, I think, is unique to the Seaway system and this is the fleet of the big lakera. These were and are and will be, because there are going to be more, specially built ships for that kind of route. Until 1959 these big lakera were trapped in the Great Lakes and they were dealing mostly with iron ore, coal and grain traffic between major ports of the Great Lakes. But when the Seaway opened in 1959, the bottleneck was removed and these big lakera were then able to come down direct to Montreal, Sorel, Trois-Rivières, Quebec and the other lower St. Lawrence ports. Finally, they were able to go as far as Sept-Îles, Baie-Comeau and Pointe-Noire, and now they have established what we consider one of the most profitable runs, carrying the iron ore from the lower St. Lawrence straight to the Great Lakes and coming down with the grain to these elevators. This is, what I would say, one of the most interesting lines of traffic now on the Great Lakes-St. Lawrence Waterway system.

I do not think it would be of any use for me to go further than that. I think members of the Committee may have very precise questions and members of my group are here to help me answer them.

The CHAIRMAN: Which members of the Committee have any questions to direct to Dr. Camu at this time?

Mr. THOMAS (*Middlesex West*): I just have one; could Dr. Camu give us the tonnage passing through the Sault Ste. Marie. It used to be rated that there was more tonnage passing through the Sault Ste. Marie canal than any canal in the world.

Mr. CAMU: I think it is correct. When I compare the St. Lawrence Seaway with the Suez and Panama Canals I compare that with two other international sections which are also toll canals, but you are quite right.

The traffic at the Sault on the American side is around 100-150 million tons a year. They have only one lock in line but they have parallel locks like fingers because there is so much traffic. At this point the traffic, of course, is the second in the world, after Suez, if you wish to compare that in straight tonnage. It is part of our system. A lot of the traffic going through the Sault is the kind of traffic that remains in the Great Lakes, like the movement of iron ore pellets from the Minnesota-Mesabi Range straight to Lake Erie ports and back. We never see that kind of traffic.

Mr. WINCH: Mr. Chairman, I have four questions and I think it might expedite business if you would permit me to put the four questions at once. Is that agreeable to you?

The CHAIRMAN: I think they would be better one at a time. It gives better opportunity to the man answering them, to follow.

Mr. WINCH: Well, I can follow through with four questions?

The CHAIRMAN: Four questions.

Mr. WINCH: My first question then, Mr. Chairman, is who has the final authority on the operation of the Seaway as between Canada and the United States? Or is every decision by agreement?

Mr. CAMU: On the operation and maintenance of the system on the Canadian side of the river, that is our own jurisdiction and we make all the decisions ourselves without any interference whatsoever.

Now, on the other hand, when we accept a ship, for instance, to determine if it is seaworthy, such as a ship arriving in Montreal, the two agencies publish together regulations or circulars in order to arrive at an agreement on what kind of ships to accept or whether a ship is seaworthy or has all the seaway equipment needed. We have committees of our own officers working together with the Americans to decide the kind of equipment needed and so forth. The same thing with radio frequencies and so forth.

Now, to move on another topic, on the tolls question. By an agreement between the two agencies in 1959, it was decided that we would do the collection of the tolls. So all the tolls collected on every one of those ships using the Seaway come to Cornwall and, at the end of every month, on a pro rata basis, we redistribute the money given to the Americans for their two locks.

The tolls on the St. Lawrence are on the division of 71 per cent to Canada and 29 per cent to the United States. This is also part of an agreement.

Mr. WINCH: Is there any part of the Seaway operation which goes through the control of the United States?

Mr. CAMU: On which we go through the United States?

Mr. WINCH: Yes.

Mr. CAMU: Every ship has to go through the two locks on the U.S. side.

Mr. WINCH: That is my point. Who has the final decision, one or the other? Or must it be by mutual agreement?

Mr. CAMU: It is by mutual agreement.

Mr. WINCH: Well then, that leads to my second question, which you have partially answered. What is the deficit as related to the tolls collected and Seaway costs? And does it require joint agreement between the United States and Canada to make toll changes?

Mr. CAMU: The answer is yes. Mr. Malcolm will answer on that point.

Mr. P. E. R. MALCOLM (*Vice President, St. Lawrence Seaway Authority*): It is by joint agreement.

Mr. WINCH: May I then ask my third question, Mr. Chairman? What is the effect upon the Seaway operations and what concern or action is being taken relative to the reduction of the water level in the Great Lakes of which we have been told?

Mr. CAMU: This question of water level is one to which we always give the same answer. But I will have to explain that too. The answer, very simply, is this. We operate with the water given to us. In other words, our concern is with navigation only and all the major controlled dams on the river, which really control the water levels, are under the two main power entities of Quebec and Ontario.

I will give you a concrete example. In Quebec we use jointly with Hydro-Quebec the Beauharnois Canal, which is about ten miles long. At the head of the canal there is a huge hydro-electric station, which controls the level right there, and the Beauharnois Canal. So we operate with the level that the regulating agency—the power entity in this case—give us.

Now, there are agreements between them and us on peaking, so in order to avoid taking a lot of water over the week-end or on a Friday evening or Monday morning and so forth, they have a minimum and maximum which they have to follow, which is indispensable for our purposes. Otherwise, we would have fluctuations that would be too great.

On the St. Lawrence above Cornwall it is the same thing. The water is controlled by two dams, one is the big hydro-electric station at Cornwall, Massena, and at the other one above, at Iroquois, there is also just a straight dam with gates. This one controls the water level in almost the whole of Lake Ontario. These are under the direct control of the two power entities; in fact there are three, because at the international water power dam at Cornwall, half of it is on the American side. But that is under their control and we are represented through an agency of the River Control Board, which is part of an

International Joint Commission. Our representative there is not someone from the Authority but is an officer of the Department of Transport, who represents us there.

Mr. WINCH: Can I ask a supplementary question on this? Now, the President has given us a good picture on the control of water on the actual Seaway operation itself.

● (11.30 a.m.)

The Seaway Authority is most interested in getting as many ships as possible through. Now, if I have it correctly, from the information given this past two years in the House of Commons, a serious matter is developing on harbour facilities because of the lowering of water. Because of the concern of the Seaway Authority, have you made any representations about, not the water which you are receiving for the actual lock system on the Seaway, but the harbour situation?

Mr. CAMU: Not for the harbours, no. We have no jurisdiction whatsoever over the harbours above the system in the Great Lakes. They are not under our jurisdiction.

Mr. WINCH: No, I know they are not but, because of your concern of getting the maximum number of ships through, which requires the use of harbour facilities, have you been in any discussions at all on the situation concerning the water level of the Great Lakes harbours.

Mr. CAMU: No, not that I know of. But, if you will allow me, Mr. Chairman, an explanation is this; what we need to operate the Seaway safely is 25 feet 6 inches. This is the permissible draft but the total draft is 27 feet. We operate with a very very narrow margin of about 2 feet between the keel of a ship, for instance, and the bed of the river itself. But we were able, through the year 1964, for instance, which was the most critical one, to operate the whole summer, even during the critical days of August and the low water period. We were able to have the 25 feet 6 inches needed for navigation and we have not had to impose on ships a restriction of 6 inches or a foot at any one time, so far.

Mr. WINCH: Can I ask a further supplementary on this one question? A further supplementary. In view of reports to the House of Commons, can you advise this Committee of your decision or recommendations about a by-pass at Welland, so that you have two instead of one?

Mr. CAMU: Two canals instead of one?

Mr. WINCH: Is not that the representation that has been made?

Mr. TARDIF: You mean the twinning of the canal at Welland.

Mr. WINCH: All right, the twinning of the canal, yes, I will put it that way.

The CHAIRMAN: That question will come later on in the report. Your fourth question, Mr. Winch?

Mr. WINCH: The fourth question is; why is it that the Engineering Division is in Montreal, which is the commencement of the Seaway, and not somewhere in between?

Mr. CAMU: The Engineering Division was opened in Montreal before the opening of the Seaway. This is where they started to make the original plans in the years before 1954, 1955, 1956. They were originally located there because of the construction of the Montreal-Lake Ontario section, with the heaviest concentration of works in the Montreal-Beauharnois area. That is why they were located there at first. In 1960, after the opening of the Seaway, the Engineering staff was down to almost a group of about 30 people, of which we had only 12 engineers. At that time, our idea was to close down the Montreal office completely and take the rest of the engineering staff into Cornwall. We were about to make that decision in 1961-62 when the difficulties of operations on the Welland Canal forced us to look again at our engineering plans and we knew we would be in trouble one of these days, with some major modifications there. So we slowly re-built the engineering branch in connection with twinning, and so forth, and we left the branch right there in Montreal. And we have expanded since, on the spot.

Mr. WINCH: I am certain the Chairman understands my question, from an efficiency point of view. Why is not your engineering section in Cornwall now? Or do you contemplate moving it to Cornwall?

Mr. CAMU: One of the main difficulties we have is in the recruiting of engineers. Everybody is competing for engineers nowadays. We need about seven or eight different kinds of engineers, of which the most difficult to get are the hydraulic engineers. In all cases, when we try to get some personnel, let us say, of \$10,000 a year salary or more, it is impossible to get these people located in Cornwall. They just do not come.

Mr. WINCH: Do you mean that you can get engineers if they are stationed in Montreal, but you cannot get engineers if they are stationed in Cornwall?

Mr. CAMU: That is right.

Mr. WINCH: Why is this?

Mr. CAMU: Well, many reasons are given usually, and they are always the same. They do not like to live in a medium or small-size town, there is no university in town for their children, they prefer the cultural life of a big city, and so forth. And we have run into this problem time after time.

The CHAIRMAN: Mr. Flemming and then Mr. Forbes.

Mr. FLEMMING: My question, Dr. Camu, is related to your remarks about your official season. I think you mentioned April 1st and a duration of 260 days. Ordinarily, you would consider your official season to be April 1st to when?

Mr. CAMU: To December 1st. The official dates are, the official opening is April 15th and official closing date November 30th. We changed that last year to December 3rd. This is for the Montreal-Lake Ontario section where climatic conditions are more difficult. The Welland Canal is open 15 days longer every year, from April 1st to December 15th. These are the official closing dates but, in the past three seasons, we have been able to open earlier in Montreal. We opened on the 8th April in 1964-65 and this year, 1966, we were able to open on April 1st.

The Welland Canal this year was opened later and, because of major construction works, we opened on the 4th. The closing date last year was around December 15th for both sections.

Mr. FLEMMING: Do you have any responsibility for ships which take a chance on coming later than the official season and then get caught in the ice. Do you have any responsibility for helping them to get out?

Mr. CAMU: We feel we do not have any responsibility at all. If you recall, Mr. Flemming, four ships were trapped one winter. We started advising them about a month before. Every three days we started to give them weather, temperature, ice conditions, climatic information and warnings and we repeated that consistently. Some of them defied our advice because they were looking for more cargo and they tried to take a calculated risk in making one more port of call and coming back on time, but it was not possible.

Mr. FLEMMING: My concern, of course, is the Atlantic ports, actually. I might say that is the reason for these questions.

One more question, Dr. Camu, when you are looking for a 10 per cent increase, do you anticipate this will provide interest and some sinking fund on your initial cost or what do you think it will provide if it goes through?

Mr. MALCOLM: We believe that the 10 per cent increase, with the anticipated traffic growth, would meet the requirements of the Authority's financial obligations.

Mr. FLEMMING: Would it provide something against the original cost of the Seaway? I am thinking about sinking funds at the moment. Would it provide anything by way of a reserve or is it just going to simply pay interest on the cost?

Mr. CAMU: Mr. Martin, our Director of Finance, will give you a better answer, I think, than we can. We can give you the over-all comments but I think it would be better if Mr. Martin commented on this.

Mr. J. M. MARTIN (*Director of Finance, St. Lawrence Seaway Authority*): The 10 per cent increase, of course, relates only to the Montreal-Lake Ontario section of the Seaway. For this section, we have had a very intensive economic study carried out by independent consultants who have provided us with traffic forecasts which encourage us very much regarding the future of the Seaway. We anticipate much heavier traffic than originally foreseen when the Seaway was first put into operation in 1959. With the increased traffic, coupled with the 10 per cent tolls increase, we hope that we will manage to pay both our interest and the principal of our obligations. This, of course, is predicated on the traffic, though.

Mr. FLEMMING: Thank you, Mr. Chairman.

The CHAIRMAN: Mr. Forbes and then Mr. Muir and Mr. Leblanc. Mr. Forbes.

Mr. FORBES: Dr. Camu, what is the present rate which is being charged on grain going through the Ontario-Montreal section?

Mr. CAMU: It is 40 cents per ton.

Mr. FORBES: Forty cents per ton?

Mr. CAMU: Short ton, of 2,000 lbs.

Mr. FORBES: Well, do you realise that if you put a 10 per cent increase on this, you are going to reduce the cost of grain to the producer by another third of a cent per bushel. This will now amount to 40 cents a ton which is about two-thirds of a cent a bushel now.

And do you also realise that farmers are caught in a cost price squeeze at the present time? The price of grain has been going down. Do you realise that grain is a very important exportable product and certainly I would hope that you would reconsider increasing the amount on grain tolls. If I understood you correctly, on the tonnage that goes through the locks, grain would amount to about 40 per cent. Is that approximately correct?

Mr. CAMU: Grain, yes, less than that—around 30 per cent.

Mr. FORBES: All right. Now, then, one more question and I will be very brief. We are getting away from a principle here that has been established since way back in 1904 and I would just like to draw it to your attention. The reason the tolls were removed from inland waterways by Sir Wilfred Laurier in 1904 was that they imposed an additional burden upon the grain growers of the west. This was interpreted to mean favouritism to the west, although it really was an effort to lessen the charges on movement of wheat from Fort William to Port Arthur to Montreal and destined for markets in the world.

When George Graham was Minister of Railways and Canals he stated in the Commons:

It cannot be denied that every dollar you impose on tolls must come out of the produce or the cargo. There is no other way to pay for it.

Now, I would like to put one more thing on the record for your information. This comes out of the MacPherson Royal Commission Report. He said:

We would not wish, in other words, to encourage the Canadian public to believe that a country such as ours can expect to attain the kind of transport facilities designed to fulfill national policy objectives and transcend commercial considerations without a continuing outlay of public funds of a considerable order of magnitude.

Now, surely, this clearly indicates to you the importance of keeping this Seaway free to assist our export of our main product, which is grain.

The CHAIRMAN: Dr. Camu, you can readily see that we have members of the Committee who do homework, and who come well prepared, and I am glad to see this, Mr. Forbes.

Mr. WINCH: Mr. Chairman, can I ask a supplementary question?

The CHAIRMAN: Wait until Dr. Camu answers the question.

Mr. WINCH: I am sorry. It is strictly supplementary.

The CHAIRMAN: Allow Dr. Camu to answer the question first. Dr. Camu.

Mr. CAMU: It is difficult for me to make comments at this time because this question of tolls and the recommended increases is coming before the public by way of public hearings and it is only after the public hearings that we will make our final recommendations.

But I think, to answer the question without losing the time of the Committee, we have prepared recently for anyone—organizations, societies, individuals—going to appear in Ottawa here on May 25, 26 and 27, a 15-page statement or notes, so to speak, which is available upon request. It is a summary of the work of our own consultants, who studied such questions as what would be the effect on iron ore; what would be the effect on wheat, on other grains, on general cargo and so forth. We have tables in this document which, I think, partly answer your question. I wonder if it would be possible for me to—I do not know whether I can use the expression—‘table’ that? But I think it would be useful as it gives a pretty good idea of why we are looking for an increase of 10 per cent.

The CHAIRMAN: Dr. Camu, we would be very happy to have that. There are 24 members on this Committee and if each member had a copy of this, I am sure it would be appreciated.

Anything further, Mr. Forbes?

Mr. FORBES: I just have one further question and that is, do you make a comparison between iron ore and grain? I would suggest to you that the processors of iron ore are in a position where they can add any additional cost to the product. The farmer is not in this position. He cannot add on his costs. I hope you will give that consideration.

● (11.45 a.m.)

Mr. WINCH: Can I ask a supplementary on the question? Can I ask the Chairman of the Seaway Authority or his Financial Director if they could give us the relationship between the cost of shipping grain from Port Arthur to Montreal, including tolls, as related to shipping it by rail from Port Arthur to Montreal? I am certain that this must be a matter of interest and I know I would be interested in knowing what the relationship is.

The CHAIRMAN: While Dr. Camu is looking that up, I think we could move on to Mr. Muir's question.

Mr. MUIR (*Lisgar*): Coming from a grain-exporting province, of course, I am interested also in any increase that would come to the producer of our cereal grains. I was interested in the comment made by Dr. Camu, pointing out the difference between the Canadian National Railway responsibilities and that of the Authority.

Now, there may be a reason for this but the Canadian National Railway is not required to balance its books, in other words, balance its assets, its revenue with its disbursements. Apparently the government is going to require the Authority to do this. This would seem to me, if we were going to assist in our export trade, and Mr. Forbes pointed this out, the cheaper we can get this grain to the seaport the better it is for our producers who are, as he also pointed out, in a very tight cost price squeeze.

I think it boils down to the fact of whether it is more important for the Seaway to meet its commitments than it is to assist the farmer in being able to export his grain at comparable prices with other countries.

I think you pointed out that something like a cent a bushel would cover the cost of a bushel of grain? Would that be right? To the Seaway?

Mr. CAMU: I do not think I have these exact figures but we have had prepared by our consultants a special report on grain, with a lot of figures in it. But you have raised one point that gives me a chance to use three minutes of your time and I think it will partly answer Mr. Winch too.

It is this: because we do not operate the ships we do not know exactly how much they charge to the shippers. We know only the part of the transport costs which is the toll on it. And our problem which is always the same and has been since 1959, is how high can we go without killing the traffic and what is the minimum, in order to get enough money to pay for the operation and maintenance of the Seaway. And, at the same time, on the Montreal-Lake Ontario section, to amortize the project in 50 years This is part of our obligation. So it is caught between the two and it is very difficult.

I can say, too, that on two occasions between 1959 and today, the costs were lower. One occasion, of course, was when the government decided to suspend the tolls on the Welland Canal. That substantially reduced the cost of goods moving from, for example, any port on Lake Erie and above, to past Montreal and below. Secondly, when the Canadian dollar was devaluated in 1961-62. So there was another 8 per cent there that was saved by the shippers. If compared to what they were paying in 1959, 1960, 1961 and part of 1962, it is not a very large increase. Fortunately for us, the traffic started to move in 1961-62 and, in a spectacular way, in 1964, with almost a one third per cent and in 1965 another 10 per cent increase. This, of course, has compensated quite a lot for the kind of revenue we have to collect in order to operate, maintain and pay our own costs.

Mr. MUIR (*Lisgar*): Thank you for that answer, Doctor. Could you tell me whether the fact that ocean going vessels are now able to get up to Port Arthur and Fort William connects with whether there has been any decrease in the charge on cereal grain from Port Arthur to Montreal, with the added competition. Could you supply us with that information?

Mr. CAMU: I think I could to you. I do not have the figures now.

Mr. MUIR: I wish you would do that.

Mr. CAMU: I think we can do this from one of our other reports. I think we can give you a few figures on that.

The CHAIRMAN: Are you finished, Mr. Muir?

Mr. MUIR (*Lisgar*): Yes, until we get the figures, I think.

Mr. WINCH: Can I ask another supplementary question?

The CHAIRMAN: Yes, Mr. Winch.

Mr. WINCH: I was a little bit amazed, Mr. Chairman, at the statement just made by Dr. Camu. If I heard correctly, you said that you do not know the charges made by the freighters which are shipping. If so, how do you then, in figuring things out in your department, do so without knowing, on a competitive basis, how to operate unless you know your charges as tolls and the freight charges? I just cannot understand your statement that you do not know freight charges. Surely, sir, you must know freight charges in order to figure out the freight charge, for example, from Port Arthur to Montreal on wheat, and your toll, in order to figure out what you are going to charge on tolls.

Mr. CAMU: We do not know for this reason, Mr. Winch, that we collect the tolls based on a cargo declaration of the ship and it is only the tonnage that is given to us. We check back the tonnage, that is all. We do not know how much they charge from the point of origin to the point of destination.

Mr. WINCH: Then how do you figure out, when you are asking an increase of 10 per cent on tolls, your competitive position?

Mr. CAMU: That is why we had to go to consultants. We ourselves did not have the means to find that out. We hired consultants to find out what the competitive prices were, through other routes and so forth, in order to determine what would be the minimum increase we could charge without losing a ton of traffic.

Mr. WINCH: Well, can you now tell this Committee the information you received from your consultants on the cost of shipping wheat by boat and rail? Could I ask that question now?

Mr. CAMU: Yes, I think I can give you that now. The Seaway rate for a short ton from the lakehead to Montreal, including the toll, is \$3.82 and excluding the toll is \$3.40. Iron ore, including the toll, is \$2.3. and, excluding the toll, is \$1.60. General cargo is \$8.81 including the toll and, excluding the toll, is \$7.83. This gives you an idea.

Mr. WINCH: What is the comparative rate by rail? I am most interested in wheat.

Mr. CAMU: I do not have the rail figures.

Mr. WINCH: You do not have them?

Mr. CAMU: Not for this.

The CHAIRMAN: Mr. Winch, this information, I think, will be on the sheet that has been distributed. Is that right?

Mr. CAMU: I think we can give Mr. Winch and some of the other gentlemen some of the these competitive rates by water and by rail let us say between Montreal and Port Arthur.

Mr. MUIR (*Lisgar*): Mr. Chairman, may I follow this up with a supplementary question. The reason I asked that question, Doctor, was that if by competition you did reduce the rate on grain from Port Arthur to Montreal, then an increase in the rates on the Seaway could be justified in the minds of the farmers. This, I think, is important because if the Seaway did not reduce their rates and they are going to increase the tolls, there might be some reason for a little disquiet among the farmers. I think it would be very important to get this information.

The CHAIRMAN: Now we have Mr. Leblanc, Mr. Noble and Mr. Baldwin. Mr. Leblanc.

(Translation)

Mr. LEBLANC: Mr. Chairman, my question should most probably be addressed to Mr. Camu. The debt, I understand must be amortized within a period of fifty years. Do the Seaway authorities have a strict obligation to meet that

amortization date? Or if they cannot meet that date, can they go and procure the funds elsewhere to compensate?

Mr. CAMU: The answer to that question is as follows. In actual fact, we were obliged to have up to 50 years to amortize the capital investment plus carrying charges, when we built the Seaway. We have no choice, so in order to achieve this—since we have traffic which is, shall we say, slightly lower in figures than we had hope of, at least at present we thought it was a good idea to increase our tolls, which would enable us to collect sufficient money to meet these financial obligations. That is the present objective of their toll review. Now, as regards the extension of the period, it has already been imposed on us by the two governments of the time in 1959, and all we do now is to try to meet the obligations which we have to meet.

Mr. LEBLANC: Which means that your deficit, including, of course, the interest and amortization charges, must be met by the Seaway authorities themselves, and the only way in which they can meet them is by collecting tolls or other revenues, as required.

Mr. CAMU: Our other revenues are very small amounts. Tolls are our main source of income, and that is the only source of income which enables us to meet our obligations. At the present time, it is impossible for us and the Auditor General every year points that out—to pay off any amount on our debt. Of course, our interests are capitalized year after year and are accumulated.

Mr. LEBLANC: Well, the Auditor General, if I may say so, I think the representative of the Auditor General will have to give me the answer. On page 3 of the report for 1964, you see that it says \$1,505,671 for other revenue. Could we have information concerning the source of these other revenues which come in addition to tolls?

Mr. CAMU: Yes, I can give you a breakdown of this amount. The amount is broken down as follows: one part of this revenue are rights which are collected at certain harbour facilities. For instance, a boat which ties up at our facilities pays— the English term is top wharfage. So, top wharfage is one of our sources of revenue. Our second source of revenue is based on land rentals, land which is rented to enterprises all along the Seaway. This is our second source of revenue. And these two sources of revenue represent the amount of \$1,505,000 for this year, the year that you mentioned.

Mr. LEBLANC: Mr. Chairman, may I ask another question? You told us earlier that the revenue was split up between Canada and the United States in the proportion of 71 and 29. Now, the revenue that is given here on page 3 of the Auditor General's report, is that revenue collected by Canada or is that overall revenue?

Mr. CAMU: It is Canada alone.

Mr. LEBLANC: After the United States have received their 29%.

Mr. CAMU: Yes, that is right. The Auditor General's report is based on our revenue, the Canadian part alone.

Mr. LEBLANC: Thank you, Mr. Camu.

Mr. CAMU: To give you a further idea of the overall revenue in 1965, it says something like \$20,000,000, and out of that \$20,000,000, \$15,000,000 for

Canada and \$5,000,000, for the United States. But I have rounded out the figures, of course.

(English)

The CHAIRMAN: Is that all, Mr. Leblanc?

Mr. LEBLANC: Yes, thank you.

The CHAIRMAN: Mr. Noble and then Mr. Baldwin.

Mr. NOBLE: Mr. Chairman, most of the information I was seeking has been supplied through the brief and from the answers which have been given here. But I would like to ask Dr. Camu this question; would the Authority be opposed to the erection of an electrical barrier at a convenient point at the lower end of the Seaway for the prevention of lamprey migration into the Great Lakes?

Mr. CAMU: Do you mean at the Sault Ste. Marie area; at the Canadian lock at the Sault?

Mr. NOBLE: I mean at the lower end, down near Montreal, as near Montreal as we could get it. The reason I am asking this question, Dr. Camu, is this; this government, along with the United States government, has spent millions of dollars trying to control the lamprey, yet they have not done anything to keep them from migrating into the Lakes. I do not know whether or not your Authority has been approached by the Department of Fisheries in respect of this matter. But I have suggested before that something should be done to stop the lamprey from coming in, and I thought your Authority had some opposition to this kind of project.

Mr. CAMU: I do not think we would have any opposition to that. But I can say this, that in the Montreal area the restricted channel is a very narrow strip between the dyke and the mainland. It is, at the most, 800 feet, and the rest of the river is pretty wide, it is three-quarters of a mile. We control only the 800 feet wide strip.

Mr. NOBLE: This would be a strategic spot to put this barrier, at the narrowest place you could find in that canal.

Mr. CAMU: Besides the lock, we have a tail race there, where we control the cubic feet per second, and so forth. I think if you allow our engineers, they can perhaps look at it and, if it is possible, we could contact the Fisheries Research Board.

We co-operate with them at the Sault because they have their own station—the lamprey station—right at our lock at Sault Ste. Marie.

● (12.00 noon)

Mr. NOBLE: There is one other question I would like to ask, Mr. Chairman, and that is, on page 16 of the brief I notice that the City of Cornwall had been overpaid by \$129,540.

The CHAIRMAN: Mr. Noble, I think we will come to that when we get to the report.

Mr. NOBLE: All right.

Mr. BALDWIN: Mr. Chairman, I want to bring up a matter in which I was interested and which, normally, I would not have dealt with until we came to the Auditor General's long form report. But as it has been touched on and largely dealt with, I think it would be better to pursue it. This is the question of the tolls.

Now, as I understand the difficulty of the Authority, you have cast upon you a duty by statute with respect to the tolls. You have not got the freedom which you might otherwise like to have. You are directed to collect an amount which is fixed by the statute and there are statutory compensatory rates which you are obliged to charge. Am I basically correct in that?

Mr. CAMU: The tolls have been the same since 1959, exactly the same.

Mr. BALDWIN: There are tolls which must be fixed to meet the requirements of Section 16 of the Act which, as I understand it, says:

The tolls that may be charged by the Authority shall be fair and reasonable and designed to provide a revenue sufficient to defray the cost to the Authority of its operations.

Then it goes on to define what those costs are:

- (a) payments in respect of interest;
- (b) amounts sufficient

as Mr. Leblanc brought out

to amortize the principal and

- (c) the cost of operating and maintaining.

Now, first, may I ask you, and probably Mr. Carvell might answer this, has payment in respect of interest on amounts been interpreted to mean the full amount of interest or just any payment on account of interest that would constitute substantial compliance with the statute?

Mr. J. T. CARVELL (*Counsel St. Lawrence Seaway Authority*): The full amount of interest is the interpretation of the burden cast by those words.

Mr. BALDWIN: That is what I thought. Now, we then come to the question of the fixing of these tolls and, as I understand the situation, a Tolls Committee was established which considered the situation up until 1958, making a report. Its report and recommendations were based on estimates and I assume these would be estimates of the potential revenue, based on the amount of traffic, and estimates on the question of the cost of operation.

Looking at that on page 4 of the 1964 long form report of the Auditor General, it immediately occurs to me that in the operation from 1959-1964 inclusive, there had been a short fall between the estimated amounts to be realised from the tolls and the amount actually realised of some \$32,000,000 of which possibly \$4,000,000 would be covered by the suspension of the tolls on the Welland Canal. So that, leaving this to one side, there would be a short fall of about \$28,000,000.

I notice, for example, the estimate of the Tolls Committee in 1958 had been that the revenue in 1964 would be \$16,369,000 whereas it was actually \$13,544,000. This was in a period of considerable expansion in the economy of the country. Is there any reason that you can assign for this at this time, because this has some bearing, of course, on what will be done in the future. I do not

want a long answer, Dr. Camu, but there is a point there which I think might well be brought up.

The CHAIRMAN: Mr. Baldwin, I think you might correct there the difference between estimate and actual. I think it is \$22,000,000 not \$32,000,000.

Mr. BALDWIN: I was taking the entire over-all period, Mr. Chairman, 1959-1964 inclusive, which showed the estimates.

The CHAIRMAN: You are taking both.

Mr. BALDWIN: Yes. It showed the estimated revenue as being \$77,000,000 and the actual revenue as \$55,000,000. That is on the Eastern Section. Then you go on to the Welland Section where you have a similar deficit.

Mr. CAMU: The answer is that the real traffic was less than the potential traffic estimated at the time, before the Seaway opened, by the previous committee of experts in 1957-58.

I will give you just a brief outline of how it went. The forecast for the first year was 45,000,000 tons in 1959. We had only 20,000,000. The following year the forecast was for 30,000,000. In 1960 we did not even increase, we had another 20,000,000 tons of cargo. It is only since 1962 that we started to increase and close the gap but we have not closed the gap yet between the original forecast and the actual traffic, year after year. We are still behind.

Mr. WINCH: What kind of experts do you have, if you are this far out?

The CHAIRMAN: Let Mr. Baldwin finish.

Mr. BALDWIN: With regard to operating costs, was there a substantial increase in the amount of operating costs over this period as contrasted with what the estimates had been at the time the Tolls Committee established its proposed rates?

Mr. CAMU: Yes, you are correct. At the same time, our operation and maintenance costs increased above the estimated cost of the experts.

Mr. BALDWIN: I would like to follow that with a question I am sure Mr. Winch was just about to ask.

Mr. WINCH: Who are the experts?

Mr. BALDWIN: Well, no, I was going to say have you any reason to believe that the assistance which is now being or has been received by the Authority in the United States and in Canada, and I assume the government, is likely to be more accurate than that made by the Tolls Committee prior to 1958.

Mr. CAMU: The answer is yes. We are more conservative in our forecasts than the group that studied the same aspects seven, eight or nine years ago. We do not look at our operation and maintenance costs and determine in advance that they will remain constant for 50 years. We take into consideration an increase in operation and maintenance costs year and year. In fact, we have given a percentage to that.

Mr. MARTIN: We assume 2½ per cent a year.

Mr. CAMU: Two and a half per cent a year increase in operation and maintenance costs.

Mr. WINCH: I wonder if Mr. Baldwin would ask you now, do you employ the experts or does the government employ the experts?

Mr. CAMU: No, the consultants who worked out our traffic forecasts were employed by us.

Mr. BALDWIN: I will ask this one on Mr. Winch, now. I assume, then, you hope that the experts will be more liberal in their estimate of revenues and more conservative in their estimate of costs than they were before 1958. I left the N.D.P. out of that one.

Now, one more question, and I think this is basic and gets back to the problem of all transportation facilities now. I understand that the Auditor General has, from time to time, done his duty in calling attention to what he suggests might be infractions of the Statute over which, for reasons you have pointed out, you have not had much to do with. Now, we then come to the question of whether this Statute is the sort of Statute which, so far as Section 16 is concerned, is going to be continued. The question is, if there is going to be a continued short fall, whether this deficit should be borne by the government, as a whole, on behalf of all the taxpayers, or whether a toll should be fixed which would be compensatory so far as the Authority is concerned, and the amounts to be paid to cover the cost of operation, to be borne specifically by the people who use the Seaway. This is the issue, is it not?

Mr. CAMU: One of the main points, of course, is whether the cost of operation, maintenance and other costs, be imposed upon the users or upon the Canadian taxpayer at large.

Mr. BALDWIN: At the moment you are bound by the Statute, is that correct?

Mr. CAMU: Yes.

Mr. BALDWIN: Thank you.

Mr. MUIR (*Lisgar*): May I ask a supplementary question on that? I would just like to ask Dr. Camu what percentage of the Seaway potential is now being used, providing the locks are not twinned?

Mr. CAMU: This is a difficult question to answer. If you ask me to give you an answer based on the tonnage, I will say this to you, that the potential capacity of our system, Montreal-Lake Ontario, is about 65,000,000 tons and the 1965 traffic was 44,000,000 tons. So you can see the difference.

If we increase at a rate of about 3,000,000 tons a year, you can see we would be approaching the potential capacity within a decade or less. That is the Montreal-Lake Ontario Section.

On the Welland Canal we would put the 10,000,000 tons over and above that. The capacity is the same on the Welland Canal—65,000,000 tons—because we have single locks and that is the determining factor. But the traffic there is about 55,000,000 tons right now.

Mr. FORBES: I have a supplementary question on that, Mr. Chairman. Dr. Camu indicated that the tonnage gradually increased from 1959 onwards. I would say to you, further to my previous argument, that the increase in your tonnage through the lock was associated with the increase of sales of wheat for export. Is that correct?

Mr. CAMU: The large sale of wheat, of course, was beneficial indeed. We could see the difference ourselves. Previous to 1963, wheat and other grains were about 7, 8 or 9,000,000 tons a year. Since 1964, it has been close to 12, 13 or 14,000,000 tons a year.

The CHAIRMAN: Mr. Lefebvre and then Mr. Bigg and Mr. McLean.

Mr. LEFEBVRE: I think most of my questions have been answered, Mr. Chairman, especially regarding the percentage of capacity that we now have in the Seaway. But there is just one little question on which I wanted to get clear. Regarding the ships that enter the Seaway too late in the fall and remain caught in the ice, and that we hear about every fall, is this because they are let in too close to the closing date or is it due to breakdowns in these ships or strikes? What is the main reason?

Mr. CAMU: We have no upbound closing date. In other words, the closing date is for both upbound and downbound traffic. Steamship companies have to govern themselves according to that date. In other words, we do not close on the 25th November for ships going up, we have only one official closing date and it is the 3rd December. That is important to ocean ships as they have to get out of the system.

It does not affect the lakers. Usually they winter almost anywhere and, if they can get in one more trip, it is to the good of the company themselves and the shippers, as such.

Mr. LEFEBVRE: Are there many ocean ships that remain in the Seaway?

Mr. CAMU: It happened only one year and there were four of them. This was in the winter of 1964.

Mr. LEFEBVRE: I do not quite understand why the Welland Canal should be free of tolls and other sections of the canal should have tolls. There are two parts to this question. Perhaps you can give us a word on that.

Mr. CAMU: The tolls on the Welland Canal were suspended in 1962. That was a government decision.

Mr. LEFEBVRE: You do not know why? It was not on your recommendation?

Mr. CAMU: It was suspended by the government.

The CHAIRMAN: It is a policy matter, I think.

Mr. BIGG: There does not seem to be any reason for that.

Mr. LEFEBVRE: I want to know whether it was on the recommendation of the Seaway which thought that perhaps this would encourage greater inter-provincial traffic within Canada, to keep down manufacturing costs, and that sort of thing, in the Toronto-Hamilton area. I want to know the policy behind that. I suppose I should do my homework on the other side of the House.

My second question is, have you any figures to show how much the taxpayer of Canada saved by the building of the Seaway, the money for which might have gone into excess costs by subsidies to the railroads, for instance. Heavy tonnage being moved by water may have saved the taxpayer money and, if the books were balanced in a different manner, it might not be necessary to change the toll structure but merely to show the saving in one section of the treasury, applied to the Seaway, in order to meet the obligations there.

● (12.15 p.m.)

Mr. CAMU: It is very difficult to determine. We have no way of finding this out. I think I understand your question well, but I have no answer to it. In other words, it might have been more profitable to put more money on other modes of transportation than water transportation. Perhaps, in the long run, it would have been more beneficial, but this is a very difficult assessment.

Mr. LEFEBVRE: No, the opposite. The Seaway has been a good investment in encouraging Canadian trade. But we might take a look at the proper place for paying the bill and I would suggest that if you raise the tolls it might mean that business might go elsewhere than to the Seaway. Therefore, the very reason for building the Seaway might be thwarted because we are not looking at the overall picture of the Canadian economy. I am surprised that you do not have, somewhere in the Authority, economists working with you people. It might, at times, go against your immediate desires, in the way of building or something like that, but if it was fitted into a long-term plan of developing the Canadian economy, then it might well be that we put more money into the Seaway, at least on paper. As I say, I thought perhaps you might have had an economist or two working right in the Seaway Authority itself.

Mr. CAMU: Yes, we have one senior economist. We have only one man in our organization who looks after that. He was appointed not too long ago.

But I think I have partly an answer to that. In this report from these outside consultants on traffic forecasts, they gave us a figure and they said too if we moved with an increase of more than 20 per cent we would start losing traffic. They said that the most sensitive traffic would be that of iron ore. So, in our proposals, we had to discuss, of course, with the Americans and so forth. The Americans also had a report made by their own traffic consultants, who conducted an independent survey too. Finally, we agreed on agreed forecasts and so forth and tried to remain lower than that ceiling, so to speak.

Mr. BIGG: Might I suggest that perhaps your economist staff is not great enough. Have you got a strong enough staff handling this particular subject? I know I am asking a leading question.

Mr. CAMU: We have one economist and a junior information officer and economist who helps him, and that is all we have. On the other hand, this review usually comes every five years or so and it is the first time we have reviewed the toll. We never did that before.

Mr. BIGG: Well, it might be interesting to have this economist before the Committee some time and he may have some very interesting comments.

Mr. CAMU: You mean, in order to have his opinion? He is located in Ottawa and it would be easy for me, later today, to have him come here.

Mr. BIGG: Thank you.

The CHAIRMAN: Have you another question, Mr. Bigg?

Mr. BIGG: I think I would like to hear the economist on this broad picture.

The CHAIRMAN: I will keep that in mind.

Mr. CAMU: I am sorry, he is in Toronto today.

Mr. McLEAN: Mr. Chairman, I would like to know if this 10 per cent increase is across the board or is it on individual items. Is this a straight 10 per cent across the board on everything or are particular items going to be picked out?

Mr. CAMU: No, it is a ten per cent across the board.

Mr. McLEAN: Now, I note that your interest charge is \$16,803,405, and you cannot meet the interest charges. Are those interest charges you cannot meet added on to capital and then interest on interest?

Mr. MARTIN: They are added on to debts, sir, and we pay interest on them.

Mr. McLEAN: It looks as though you are going up and up all the time. Now, in the reduction in the Welland Canal, did the United States lose on that 29 per cent? Or did they get the same amount?

Mr. CAMU: I think if you will allow me, I will bring the Committee up to date on that because we have been able, very recently, to conclude a new agreement on the sharing ratio. Starting with the season of navigation of 1967 until 1971, Canada will collect 72 per cent and the United States 28 per cent. This will start next year.

Mr. McLEAN: But that does not answer my question, really. You lost on the Welland Canal. Now, the United States was receiving 29 per cent, I presume, of what you took in on the Welland Canal.

Mr. CAMU: The 29 per cent applies only to the tolls collected on the Montreal-Lake Ontario section.

Mr. McLEAN: Not on the Welland?

Mr. CAMU: No, sir.

Mr. McLEAN: Does the American Seaway insist that the income will take care of their interest charges? Does that have an influence on the Canadian tolls?

Mr. MARTIN: Yes, it has and they expect that within about two years their share of the tolls will take care of the interest charges and that, subsequently, they will be able to effect reductions of their actual debt.

Mr. McLEAN: At the present time, if you increase or decrease your tolls, the United States would have some interest in that, because of their getting the 29 per cent.

Mr. MARTIN: They are associated with us in this proposal to increase tolls by 10 per cent.

Mr. WINCH: They require this 10 per cent increase in order that, in two years, they can balance their charges. Their requirement is 10 per cent?

Mr. MARTIN: Yes.

The CHAIRMAN: Mr. McLean, I do not think you were finished there.

Mr. McLEAN: Your toll is added onto the shipping companies' rates. Now, if the toll is added onto their rates, is there any way in which to ensure their rates would not be increased more than what your tolls are? Are not they inclined, when an increase is made, to increase their charges a little more at the same time?

Mr. CAMU: Yes, it is a possibility and in fact they do that almost every two years. Like major ports on the Great Lakes, all of them have announced increases of all kinds recently. Before the season started, in March and in February, we could see that in the clippings we were receiving. Everybody was increasing.

Mr. McLEAN: The increase by the shipping companies would have more bearing on the returns of the farmers than the increase in tolls.

Mr. CAMU: I would say yes but, of course, we do not know how much.

Mr. McLEAN: Is there any Board regulating the charges on the Lakes?

Mr. CAMU: No, they do not come under the Board of Transport jurisdiction.

Mr. McLEAN: The railways do.

Mr. CAMU: But not the ships.

The CHAIRMAN: I just wanted to ask a question. Has there been any thought of placing this under the Board of Transport Commissioners. Has any thought ever been given to that?

Mr. CAMU: Not that I know of except perhaps one recommendation of the MacPherson Commission. But I do not know, myself.

The CHAIRMAN: Did the MacPherson Commission Report have any mention on this?

Mr. CAMU: I do not know, unless someone knows about that.

Mr. FORBES: Mr. Camu, is it not a fact that the rates for tonnage on the Great Lakes is competitive. That is, it is let on a tender basis among the shipping companies?

Mr. CAMU: Oh yes, they are competing. That would help, yes. We know of the case of a young shipping company, so to speak, because they have been in the business only seven or eight years, which has no overhead, like an old company. They have no old ships. They have only five or six big lakers. These people are charging rates that are more or less cutting their competitors on some of the routes. That exists. In fact, they are all members of various associations such as the Dominion Marine or the Lake Carriers and so forth. But we know how strongly they compete among themselves, when they are asking for entry or are leaving one of our canals in order to be at a port and an elevator before one of their competitors. It goes on all the time.

The CHAIRMAN: Mr. McLean and then Mr. Winch.

Mr. McLEAN: Before the Seaway was established there was a lot of development on the St. Lawrence waterway. Was that capitalized when the United States came in? The previous development, that was not capitalized?

Mr. MARTIN: No, nothing has been capitalized by any other organization, other than the Seaway itself.

Mr. WINCH: Mr. Chairman, I was most intrigued by the statement just made by the Chairman of the Seaway Authority. Perhaps I should have known but, as I did not know, I should like to clarify it. The freight rates in Canada are completely controlled by Canadian law. Let us take a ship that is going

through the Seaway and that is moving completely within Canadian jurisdiction shall we say, or from Labrador and going through; do I understand that there is no government control on their rates?

Mr. CAMU: I do not think there is any government control on their rates.

Mr. WINCH: I did not know that before.

The CHAIRMAN: Competition keeps them pretty well in line, I guess.

Mr. WINCH: I am not speaking about ocean ships, I mean strictly within Canada. There is no control on rates?

Mr. CAMU: No.

Mr. WINCH: On railways, complete control but on ships within Canada—no.

Mr. CAMU: No.

Mr. WINCH: Thank you, that is most interesting.

The CHAIRMAN: There has been a very good line of questions addressed to Dr. Camu. I think if you have exhausted your questions of a general nature, perhaps we should turn to the long form report 1963.

Mr. Long, who is Assistant Auditor General, will go through this report. As you know, our Auditor General, Mr. Henderson, is at a meeting of the Governing Board of the Permanent International Secretariat of Supreme Audit Institutions and that is why he is not with us today. We are very pleased to have his righthand man, Mr. Long, to carry on. Mr. Long, would you proceed?

Mr. THOMAS (*Middlesex West*): Mr. Chairman, on a point of order here, we have been following this study of the Auditor General's report, not covering in the 1963 report, any items which are repeated in the 1964 report or the 1964-65. Now, could Mr. Long tell us whether there is anything in the 1963 report which is not dealt with later in the 1964 report? And, if that should be the case, why not deal only with the 1964 report, since the 1963 report is incorporated therein, and cut down our time of consideration.

The CHAIRMAN: A good question, Mr. Thomas.

Mr. G. R. LONG, (*Assistant Auditor General*): Well, Mr. Thomas, I think the difference here is that these reports are dealing with financial results. They are not Audit comments, as are the reports to the House of Commons. They are dealing with financial results and, of course, the figures, in some cases, are quite different in the two years.

The CHAIRMAN: What is the wish of the Committee?

Mr. BIGG: Could not they be compared, generally, in the three columns, the 1963, 1964, and so on?

Mr. LONG: For the most part, there is a comparison, yes.

Mr. BIGG: So, in general, the figures would be there in the 1964 report, which we are going to deal with here, so there would be no need for repetition, would there?

Mr. WINCH: Could I make the suggestion that as Mr. Long knows what perhaps should be drawn to the attention of this Committee, he draw to our attention what he thinks should be drawn to our attention, while the officers of

the Seaway Authority are before us. I trust Mr. Long that far, and I suggest we do that.

The CHAIRMAN: He proposes to do that, Mr. Winch. Mr. Long, what do you think about the 1963 and 1964 report? Could we not go to the 1964 report and set aside the 1963 long form report?

Mr. LONG: I am in the hands of the Committee, Mr. Chairman.

The CHAIRMAN: What is the wish of the Committee?

Mr. THOMAS (*Middlesex West*): I would like Mr. Long's recommendation. He knows what is in the reports to better advantage than we do. If he thinks we should study both, I am quite prepared to do it.

Mr. LONG: I have been guided by the procedure that was followed on previous occasions when the other corporations were before the Committee and, in those cases, there was a quick run-through of the two years' reports, if there were reports covering two years before the Committee at the time. I have made some notes doing it this way.

If I revert to the 1964 report, I will have to go much slower because I will have to try and pick up the things in the other report. In other words, what I was going to do was give you more detail in 1963, to answer questions that might be in your mind.

Mr. WINCH: I suggest we leave the Committee in the hands of Mr. Long, to make the report as he considers necessary to this Committee.

The CHAIRMAN: All right, we will proceed with the 1963 long form report and Mr. Long will take over.

Mr. LONG: Thank you, Mr. Chairman. Before I start, if I may, I would like to introduce two of the members of our staff who are appearing here for the first time today. I would ask them to stand.

The first is Mr. W. A. Villeneuve, who is the Assistant Director of the branch responsible for the audit of the St. Lawrence Seaway Authority. Next to him is Mr. D. H. McMillan, who is in charge of the section that does the actual audit of the Authority which is carried out, for the most part, at the headquarters in Cornwall.

The CHAIRMAN: Could I ask a question here? Has the Authority an auditor or audit staff of their own?

Mr. MARTIN: We have an internal audit staff.

● (12.30 p.m.)

Mr. LONG: Starting with the report of 1963, copies of this report and of the report for the year ended December 31st, 1964, have, I believe, been distributed to the members of this Committee. Turning to the 1963 report, I will refer briefly to the main points. If members of the Committee have any questions I hope they will not hesitate to interrupt me and they can be dealt with while members of the Authority are here.

The first page, of course, is the introduction to the report, which outlines the scope of the examination and refers to copies of the financial statements which are appended to the original report. I might explain here that copies of the

statements were not appended to the reports that were given to members of the Committee because, at the same time, they received copies of the Seaway's own report, which includes copies of the financial statements. We point out here that the Minister of Transport, of course, receives a copy of this report.

On page 2, reference is made to the statutory report, which has to be made under Section 87 of the Financial Administration Act and to a revision which took place in the Authority's financing arrangements whereby interest to December 31, 1964 was deferred and commencement of payment of instalments of principal and interest was deferred a further period of one year, to December 31st, 1965.

Mr. BALDWIN: Could I ask a question on that? That was done by Order in Council was it not, Mr. Long?

Mr. LONG: Yes.

Mr. BALDWIN: And that was pursuant to the Financial Administration Act. I assume that authority granted it.

Mr. LONG: Yes, it is still keeping in mind that the indebtedness, including interest, will be paid within 50 years. What it is doing is shortening up the number of years in which the actual payments are going to have to be made.

Mr. WINCH: Could I ask what rate of interest is charged by the government on lack of payment of interest?

Mr. MARTIN: What interest rate is charged on?

Mr. WINCH: What rate of interest is charged by the government on your lack of payment of interest.

Mr. MARTIN: It varies from year to year, depending on the rate at which the government can borrow money at the time. In other words, if the government is borrowing money on December 31st or in that quarter at about five and three-eighths per cent, that is the rate we will have to pay on the unpaid interest.

Mr. BIGG: Did the Canadian government put up the whole capital and are we paying interest on the whole capital expenditure of the Seaway?

Mr. MARTIN: The cost of the American locks was \$140,000,000 and that was put up by the American government. We put up the rest.

Mr. LONG: On page 2 we also refer to a change in accounting policy which was introduced in that year with respect to the replacement of worn out assets. Under the heading of "Operations For The Year" it is pointed out that the statements reflect the accounting changes introduced during the year whereby expenses of operation and maintenance were combined and shown by objects of expenditure rather than by physical features such as locks, bridges, etc. These accounting changes were introduced to streamline the clerical work of the Authority and to produce simplified monthly expense reports which it was hoped would be more meaningful to management and provide a better basis for controlling costs.

Mr. WINCH: Could I ask one question there, Mr. Chairman? I think it is a waste to ask it. On your financial statement how much do you depreciate yearly your situation?

Mr. MARTIN: During the period under review it was about \$800,000 a year, split evenly between the Montreal-Lake Ontario section and the Welland Canal. However, since the beginning of 1965, we have not taken depreciation on the Welland Canal because it is now being financed entirely by the government.

Mr. WINCH: I am sorry; because it has now been taken over, strictly financially, you allow no depreciation?

Mr. MARTIN: That is right.

Mr. WINCH: Could I ask, before this was done, because of it being one of our original locks, had you wiped out on depreciation the capital cost of that?

Mr. MARTIN: We do not depreciate the entire capital cost, Mr. Winch. We only depreciate those relatively insignificant assets which have a life of less than 50 years. Such things as motor cars, electric machinery and so on. We do not attempt to depreciate a concrete structure like a lock or a channel, which is really just a hole in the ground.

Mr. WINCH: So you make no depreciation for the actual lock or Seaway itself at all?

Mr. MARTIN: That is correct.

Mr. CAMU: For anything made of concrete, anything that is not movable, we do not.

Mr. BIGG: It is a question of re-saleability is not it?

Mr. CAMU: Yes, this is a unique feature in that it is like a permanent feature in the physical landscape. But anything that is movable is depreciated.

Mr. WINCH: Basically, then, on that position, you are responsible for the repayment of the principal cost but not through the method of depreciation.

Mr. MARTIN: When we do repay principal, we will incorporate an amortization charge into our costs.

Mr. WINCH: So basically, it is depreciation, is it?

Mr. MARTIN: Well, we have argued that to take depreciation and amortization would be duplication and unfair to the users.

Mr. WINCH: Now you have got me lost.

The CHAIRMAN: Carry on, Mr. Long.

Mr. LONG: Perhaps I can explain, Mr. Winch, amortization includes much more than depreciation. There was a very large cost involved in changing the Jacques Cartier bridge in Montreal. This is not a Seaway asset but it cost a lot of money to bring the Seaway under it. Regarding the Victoria Bridge, there was a tremendous cost there. Now all these costs have to be amortized in repaying the debt but there would not be any depreciation involved, because they are not Seaway assets.

Mr. WINCH: I am even more lost, now. All right, Mr. Chairman.

Mr. LONG: Turning to page 3, it is shown that the income of the Authority for the year amounted to \$12,000,000 and expenses of operation, maintenance, engineering and administration were \$8,000,000 leaving a net operating income of \$4,000,000. However, this net operating income was insufficient to provide for

interest of almost \$17,000,000 on loans and for the replacement of machinery and equipment of something under \$1,000,000. The net result was a loss of \$13,700,000 compared with a loss of \$13,100,000 in the previous year.

It is pointed out that as the tolls for the transit of the Welland Canal were suspended by the government in July 1962, there was no toll revenue from this source throughout 1963 and the estimated loss of revenue due to the suspension of tolls was \$1,800,000 for the year.

The figures that I have just mentioned are summarized in the table at the bottom of the page, showing the amounts applicable to the St. Lawrence River section, the Welland Ship Canal and the North Channel Bridge, which is the bridge over the north channel of the St. Lawrence River at Cornwall.

Mr. McLEAN: Is there any way of telling how many foreign ships would use the canal and of what benefit it is to Canadians by suspending the tolls on the canal? How much are foreigners getting out of it and how much are Canadians getting out of it?

Mr. CAMU: We have the exact number of foreign ships that are using both sections of the canal year after year after year and how much they carry. But to find out if it would be more profitable or less profitable to Canada, this is very difficult.

Mr. McLEAN: Was there any reduction in grain rates when they suspended the tolls on the canal?

Mr. CAMU: It is hard to relate the suspension of the Welland Canal tolls to the increase of traffic in the following three years. It is very hard to do that.

Mr. McLEAN: How many ships of foreign registry use the canal?

Mr. CAMU: There are thirty different flags that are now seen on the two sections of the Seaway—the flags of thirty different countries. Of course, in two or three cases, which represents a large number of them, we call them a “flag of convenience” such as the Panama and Liberia flags where the interest behind these are usually United States shipping or that of major European countries. But anyway, the number is about 30 altogether.

The total number of ocean ship transits in the year 1963 was 1,858 out of a total of 7,005.

Mr. WINCH: These were of foreign registry?

Mr. CAMU: Yes, because ocean ships are all of foreign registry, except for one or two.

Mr. FORBES: Mr. Chairman, partly in answer to Mr. McLean's question, at the time of the opening of the St. Lawrence Seaway, the price of grain was increased, due to the saving of having to unload from the small boats to the big ones and I think it amounted to about 5 cents a bushel.

Mr. CAMU: That is correct, or maybe more than that, because they eliminated the trans-shipment centres or points such as the small size elevators like Prescott and Kingston and Port Colborne. They still do business today, but less, because the lakereaders were able to come straight down from the Lakehead to Montreal and so forth. So they eliminated what we call transfer costs and trans-shipments all the way, at two or three points. That was quite a saving in the overall cost of wheat f.o.b. overseas.

Mr. FORBES: I only suggested that because you might take advantage of it with this increase of tolls.

The CHAIRMAN: Mr. McLean's question here, is of interest to me and I wonder if Mr. Malcolm could give us those figures again, regarding the total number of ships going through the Welland Canal in 1963, and then we will subtract from that the number of foreign ships.

Mr. MALCOLM: Mr. Chairman, the information I have before me related to the number of transits by country of registry.

Mr. WINCH: One way or two ways?

Mr. MALCOLM: Both ways, sir, through the Welland Canal. The figure is 7,597.

The CHAIRMAN: And, of that number, how many were foreign—1,858 was not it?

Mr. MALCOLM: If I may, sir, I will give you the information with respect to Canada. The country of registry Canada, was 4,330.

The CHAIRMAN: Four thousand three hundred and thirty were Canadian ships.

Mr. MALCOLM: The country of registry was Canada and the balance represented other countries.

The CHAIRMAN: I think that answers your question, Mr. McLean.

Mr. McLEAN: When the tolls were dropped on the canal, was there any rebate made to the shippers by the steamship companies?

Mr. CAMU: Not that I know of.

Mr. McLEAN: They just took the toll and put it in their pocket?

Mr. CAMU: I think so. What I do know, and what I was told but could not check, was that some of the shippers were able to pocket the advantage along the way.

Mr. McLEAN: So it only benefitted the steamship companies, then?

Mr. CAMU: Mostly.

Mr. LEFEBVRE: Mr. Long, I have a question here. Mr. Winch said a few minutes ago that he was getting lost and I think I am getting a little lost myself. On these white sheets do the figures here compare with what we have in this blue book, the Annual Report? In the column for 1963 on page 3 we have Income.

The CHAIRMAN: No, it is a white one, Mr. Lefebvre.

Mr. LEFEBVRE: But there is a column here for 1963, in the 1963 report page 3. Financial Review.

The CHAIRMAN: Now, your question, Mr. Lefebvre?

Mr. LEFEBVRE: On the white sheet at the top of page 3 we see here that income for the year amounted to \$12,045,221 and in the blue book, page No. 3, income in column 1963 is \$11,265,749.

Mr. LONG: Mr. Lefebvre, there are two sections to the Seaway. On page 3, you are looking at the St. Lawrence River section; below that is the Welland

figure and, at the very bottom of the page, is the combined total, and you will see that they agree.

Mr. LEFEBVRE: All right, that is fine.

The CHAIRMAN: I am glad to have an auditor in our midst.

Mr. WINCH: I have one statement here, in view of the statement made by Mr. Long. Perhaps the best way I can put my question is this: in the centre block we have a restaurant and a coffee shop; in the west block we have a cafeteria. The restaurant loses a lot of money but the coffee shop and the cafeteria make money. If you put them all together, we are not in the red. Now, with that explanation, will you now tell me what are the operations of the Seaway Authority? Do you go strictly section by section or is it the over-all picture that counts?

● (12:45 p.m.)

Mr. CAMU: I will just make one brief comment on this and I can go deeper if you wish.

Mr. WINCH: You understand what I am after?

Mr. CAMU: Yes, I think I understand. We are interested in the over-all picture and the over-all picture, of course, is bad. But if we isolate the Montreal-Lake Ontario section, the financial picture is not that bad. We operate that section with a net surplus every year but it is not enough to pay the interest charges.

On the Welland Canal, the picture is very black. Prior to 1962, we did not even get enough money to cover the operation and maintenance costs of that canal. But the over-all picture is bad.

Mr. WINCH: This is the point I am driving at. As you do break it down by segments, why do you take the position that one shall pay and one shall not pay? On what basis do you arrive at this conclusion?

Mr. MARTIN: Are you referring to how do we arrive at our figures, Mr. Winch?

Mr. WINCH: No, how do you arrive at your policy whereby one segment shall pay and one segment shall operate at a loss? Is there some kind of a policy whereby in one area you are prepared to accept the loss? If so, what is the policy basis whereby you accept the loss here but make money or break even somewhere else?

Mr. MARTIN: I think it is necessary to go into history. The tolls on the St. Lawrence River were set by the governments of Canada and the United States, as a result of an exchange of notes. We are merely the instruments of government policy in recovering those tolls.

In the case of the Welland Canal, which is an entirely Canadian facility, as has been mentioned before this Committee already, it was a government decision to suspend the tolls in the year 1962.

Now, as to the reason why we cannot put them all into the one pot, our agreement with the American Seaway Corporation provides that the tolls on the lower Seaway will recover only those costs related to the lower Seaway and it

is therefore impossible for us to charge a higher toll on the lower Seaway in order to make more money to reduce the Welland deficit.

Mr. BIGG: Are there any statistics on where these foreign ships go? It seems to me that perhaps these foreign ships are largely in Canadian trade, is that so?

Mr. MARTIN: Do you mean a breakdown in their destination once they get up into the Seaway?

Mr. CAMU: Yes, we have that in our annual Traffic Report published every year. It includes about 70 tables and the breakdown of everything is in there.

One of the most useful tables, which will answer your question, is one where the traffic is broken down into upbound and downbound traffic and broken down further into Canadian, foreign, Canada to U.S.A., U.S.A. to Canada, and so forth.

Mr. FLEMMING: My question, Mr. Chairman, is this. Would it be possible for a foreign ship to bring in a cargo, say, going to Port Arthur and then, on the return voyage carry a cargo from the Lakehead, say, down to Montreal? Is that permissible under our laws?

Mr. CAMU: It is not permissible for a foreign ship to do that, no. Only Canadian ships can carry cargo between two Canadian ports.

Mr. FLEMMING: That was my point, thank you.

The CHAIRMAN: Then that would mean that a foreign ship loading at the head of the Lakes and going through the Welland Canal and on to a foreign country, with no tolls in the Welland Canal, is definitely at an advantage, is that correct?

Mr. CAMU: It is an advantage to the exports or imports, whichever way the ship is going—up or down.

The CHAIRMAN: I wonder if consideration was given to free tolls to Canadian ships but not free tolls to foreign ships through the Welland Canal? Could that be executed?

Mr. CAMU: No.

(Translation)

Mr. LEBLANC (*Laurier*): If the government in 1962 decided to remove the toll from the Welland Canal, it nevertheless left to the Seaway authorities the obligation of making up for a loss in 1963 of \$6,500,000. Consequently, would it not have been fairer, in order not to force you to increase tolls too much; would it not have been fairer if the government, in removing the toll on the Welland Canal, would it not have been more logical if the government had assumed the deficit itself without saddling it on the Seaway authorities?

Mr. CAMU: Yes, we have an answer to your question, Mr. Leblanc, and that is as follows: The government finally reimbursed us for operation and maintenance costs of the Welland Canal which we were incapable of assuming since the time of suspension of the toll and we received that amount in 1965 I think, for the years 1963, 1964 and 1965 and part 1962 and if the amount is correct, it is something like 20 million dollars.

(English)

Mr. MARTIN: They gave us back a deficit of \$27,000,000.

(Translation)

Mr. LEBLANC (*Laurier*): The reason why we do not see the income under 1963 or 1964 is that we see it only as a loss for the Welland Canal. Is that the reason that you gave?

(English)

The CHAIRMAN: Now, gentlemen, it is two minutes to 1 o'clock and I think it is a good point at which to break off. With the agreement of the Committee, we would like to sit at 3.30 or right after Orders of the Day so that we can complete the report on the Seaway Authority. Does the Committee agree to sit immediately after Orders of the Day?

Mr. LEFEBVRE: The Agriculture Committee is sitting also at 3.30 Mr. Chairman.

The CHAIRMAN: Well, could we have a quorum of 10? All those who can be here at 3.30.

Mr. NOBLE: There is a meeting of the Agriculture Committee at 3.30.

The CHAIRMAN: Well, perhaps we had better re-convene on Thursday morning. Dr. Camu, your people are all in Ottawa, are they?

Mr. CAMU: No. We have some in Cornwall. If it is your wish, we will come back.

Mr. WINCH: Might I suggest, sir, that we meet at 3.30 and you see a quorum?

The CHAIRMAN: Well, I think that would be permissible in view of the fact that we started with one.

Mr. BALDWIN: We might borrow three bodies from the Agriculture Committee, just to get under way.

The CHAIRMAN: We will meet at 3.30 after Orders of the Day.

Mr. LEBLANC: We will have to call the other members who are not here, so that they will know we are sitting at 3.30.

Mr. BALDWIN: Mr. Chairman, before we adjourn, I wanted to ask the Assistant Auditor General to file some information. It is quite irrelevant to this but it is a matter I wanted to deal with later, when we come to it, at the appropriate time. As it might take some time to gather, I simply want to ask Mr. Long if he would prepare a table to be filed, showing the comparative salaries of the Auditor General and certain departmental officials such as Deputy Ministers the Chief Justice and others which are payable under statutes, for purposes of comparison.

I brought up in the House and also in the Committee, questions dealing with the status and authority of the Auditor General. I would ask if Mr. Long could prepare a statement, going back, say, to 1924, for which I have a specific reason, so that this could be available and which I could use at the appropriate time in our further deliberations. Can you do that, Mr. Long?

Mr. LONG: You want, Mr. Baldwin, a comparison of those salaries and any changes that took place since 1924?

Mr. BALDWIN: Yes, that is correct.

Mr. LONG: I will be pleased to do what I can on that.

The CHAIRMAN: The meeting is adjourned until 3.30 or after Orders of the Day.

AFTERNOON SITTING

TUESDAY, May 10, 1966

● (3:45 p.m.)

The CHAIRMAN: Gentlemen, I see a quorum. An official register is to be kept when the other three members come in from the Agriculture meeting.

When we adjourned at one o'clock, gentlemen, we were about to have Mr. Long go through the 1963 long form report as quickly and as briefly as he could, and then maybe he could spend a little more time on the 1964 report. We would like to complete our study of the St. Lawrence Seaway by 5:30 or thereabouts. Would you commence, Mr. Long.

Mr. G. R. LONG (*Assistant Auditor General*): Thank you Mr. Chairman. If the members would turn to page 5 of the 1963 long form report, I would point out one small item at the bottom of the page which is peculiar to this year. It refers to the employing of security guards to protect the Authority's facilities and structures following bomb explosion damage to the railway bridge at Caughnawaga which cost the Authority \$29,000 to repair. These security guards were costing the Authority about \$37,000 a year. This was something that was mentioned in the 1963 report as being a new type of expenditure.

Mr. WINCH: May I ask you through the Chairman, to explain why this new expenditure was required.

Mr. CAMU: Yes, Mr. Winch, this was related to 1963 incidents that occurred in the Province of Quebec that at the time related to some bomb explosions and threats from some of the members of the separatist movement and so forth. Threats were made at three of our bridges and a bomb exploded at that bridge; later on, it happened again at Victoria bridge. We had to arrange quickly for some security guards because we did not have any security guards before that. Such facilities as our bridges and so forth were open and we had no fencing, no lights, nothing. So, we asked the R.C.M.P. to help us and they did. They made a complete survey of all our facilities from one end to the other, and in doing so they made a report.

Their report indicated that we needed more facilities, such as fences, lights, other devices and so forth. At the end they recommended, because they could not do it themselves with their shortage of staff, that we hire an agency to patrol around the clock. So we hired these guards, and we have kept them since because they were under threats the following year. That explains this item.

Mr. WINCH: Mr. Long, is there any way at all that we can charge this to the Province of Quebec?

The CHAIRMAN: Carry on, Mr. Long.

Mr. LONG: The next item which I think you will find of interest is on page 7 referring to the non-toll canals. In addition to the operation of the Seaway, which includes the Welland canal, the Authority is responsible for operating a number of what are known as non-toll canals. The cost of operating these canals, which amounted to \$3.9 million, is met by Parliamentary appropriation. The income from the operation of these canals is quite small, being something just over \$500,000 in 1963. The resulting deficit of \$3.4 million in 1963 was considerably larger than the deficit of \$2.2 million in 1962, largely because of payments made to local authorities in consideration for their assuming responsibility for future maintenance of certain lands and structures which were no longer required by the Authority. It is also shown that a considerable expense resulted from the necessity to rehabilitate two bridges over the Lachine canal in 1963.

Mr. WINCH: I am sorry to interrupt you, but I think that Mr. Long has now raised a matter on which, indirectly, perhaps I can base a question. We have heard from Mr. Long this morning and this afternoon on expenditures which are charged to the Seaway Authority with regard to construction, maintenance or some assistance on bridges. My first question is this. Why, on a matter of bridges, is this considered a charge on the Seaway Authority?

Mr. CAMU: The following distinction has been made. These two bridges over the Lachine canal are non-toll bridges. In connection with this canal, we receive the money from appropriations through the Department of Transport, through our own minister. This is in a completely separate budget. But bridges along our own system, the bridges on the south shore of the river in the same Montreal area, are part of our regular operation and maintenance costs.

Mr. WINCH: The bridges are?

Mr. CAMU: Oh yes.

Mr. BIGG: Why?

Mr. CAMU: I will give you an example on the operation of a bridge. Bridges are raised or lowered according to the traffic of ships because priority is given to navigation. So, some of these bridges are only railway bridges; others are regular bridges, and others both. So all the way along the bridges are controlled by our own people so we have bridgemasters on duty right around the clock, and all the traffic lights related to navigation are right on either side of the bridge. As soon as an approaching ship reaches what we call the bridge approach or the approach to the bridge, then there is a whistle or a signal and

the bridge operator has so many minutes to raise the bridge so that the ship will not slow down at all. So it is indispensable from our own operations point of view to have complete control over all the bridges that cross the Seaway.

Mr. WINCH: I can understand you having control over the bridges but why should any capital costs be charged to the Seaway?

Mr. CAMU: Well, these bridges were constructed by the Seaway Authority.

The CHAIRMAN: And, those that were not constructed by you, you get a grant from the Department of Transport.

Mr. CAMU: Well, for bridges outside of the Seaway, in some cases, yes. But in some cases like, I think, on the Beauharnois canal, we get something from the railway operations of these bridges. We get a grant back from Quebec Hydro in the case of one bridge that I know on the Beauharnois canal.

Mr. WINCH: At the same time, Mr. Long, in your last remarks, you spoke about non-toll operations, I believe; is that right?

Mr. LONG: Non-toll canals.

Mr. WINCH: Non-toll canals?

Mr. LONG: These are sundry small canals, such as the old Lachine canal, the Sault Ste. Marie canal, and the old Cornwall canal which have nothing particularly to do with the Seaway but the Seaway Authority is probably the best government authority to look after them.

Mr. WINCH: What are they used for?

Mr. CAMU: These canals were part of the former, let us say the third St. Lawrence seaway system. They were in operation and they were the only series of canals used between 1904 and 1959. These canals were transferred to the Authority. They were part of the former St. Lawrence system, so to speak, and the jurisdiction of these canals was transferred en bloc to us in 1959. I will give you the example of the Lachine Canal. Until recently this canal could be used by small vessels as a bypass to avoid paying lock charges and tolls on two locks across on the other side.

● (4:00 p.m.)

In order to avoid that and give us complete control over the cost of any through transit by a vessel we have to control the Lachine Canal which is located on the other side.

Mr. WINCH: In view of the fact that you have control on a non-toll basis, do you have to accept the cost, or do you get a grant—

Mr. CAMU: We get a grant every year.

Mr. WINCH: —to cover the entire cost?

Mr. CAMU: Exactly.

Mr. WINCH: It meets your entire expense, does it?

Mr. LONG: I was going on to say that at the top of page 8 reference was made to the portion of the seaway administration and engineering expense of

the authority which is charged to non-toll canals, and also to certain capital expenditures which were incurred in putting a swampy area into suitable condition so that a local authority would be willing to assume full responsibility for it in the future.

Mr. BALDWIN: In your opinion, Mr. Long, and in the opinion of the Auditor General, does this amount referred to at the top of page 8 represent a fair pro rata distribution, having in mind the various amounts involved?

Mr. LONG: Yes, I think we have had no problem with that. A little farther down on page 8, reference is made to the balance sheet of the authority, and the first item is an amount of \$5 million invested in Treasury Bills of Canada. This represents the investment of surplus funds; it earned \$172,000 in interest during the year, but we point out that this was more than offset by higher interest expense on borrowings obtained in advance of need.

The CHAIRMAN: Could we have Mr. Martin, the financier of the authority, explain to the Committee why you do this?

Mr. WINCH: At the same time Mr. Martin is doing that, could he please explain why you can invest surplus funds when you cannot meet your interest payments to the Government of Canada?

Mr. MARTIN: Well, I think the answer is that during the closed season, which is from mid-December until mid-April of each year, during which time we carry out very heavy maintenance—all our maintenance is done when the canal is closed—we have to keep funds on hand to pay these bills because we have no income coming in. In the year 1963 we had to keep funds on hand to cover not only the Montreal-Lake Ontario section, but in those days we were financing the Welland Canal too, so we had to keep funds on hand to cover the payrolls and other operating costs up there. This is described as surplus cash but, in actual fact—and this is a little technical—this represents the cash generated by our provision for replacements and is not available for debt service.

In other words, you make a provision for replacement as a book entry and charge it in as an expense; you do not actually spend the cash at the time you make the provision. You retain the cash and then you use it when you have to replace the assets.

The CHAIRMAN: I wonder, Mr. Martin, if you could go further here with respect to the recommendation that you explore with the Department of Finance the possibility of taking advantage of the provisions of Section 27?

Mr. MARTIN: We did explore that, Mr. Chairman, and the answer is that the Department of Finance can give us an interest rate which is one half per cent lower than we can get by investing the money in treasury bills, so it is to our advantage to handle it ourselves. Now, in actual fact, if the money is in treasury bills it is back in the hands of the government.

Mr. WINCH: You get one half per cent more by doing it that way?

Mr. MARTIN: That is right. This is referred to in the 1964 long form report. I do not know whether or not I can find the page.

The CHAIRMAN: We will come to it, Mr. Martin.

Mr. MARTIN: I have it here, page 14.

Mr. BIGG: I am not an accountant nor a banker, but it seems strange to me that you can earn \$172,000 on money which you have drawn which is in excess of what you need when there is actually no money in existence; it is only emptying a bank account, is it not? I do not see why you should need any more money than you actually put out to pay your bills.

Mr. MARTIN: Well, there is always the difficulty of getting your hands on money when you need it.

Mr. BALDWIN: He's not talking to you, Mr. Bigg. I am sorry, Mr. Martin.

Mr. BIGG: If it was bad then, what is it like today.

But surely, with your bank account, could you not have a floating credit according to the amount appropriated by parliament, which is in the nature of a guaranteed loan without any necessity for actual cash stacked up some place?

Mr. MARTIN: I do not think that we could arrange to borrow from a bank, sir.

Mr. WINCH: Why? This is interesting. I mean, this is the seaway authority, and everything is guaranteed by the Government of Canada. Why do you not borrow from the bank? I believe you could borrow it at $5\frac{1}{4}$ per cent, could you not?

Mr. MARTIN: I would be very surprised if you could do any better than the interest rate which we get from the government, sir, which is the rate the government is paying. I have never heard—and Mr. Long could correct me on this—of a crown corporation borrowing money from a bank.

Mr. BIGG: I am not suggesting that you borrow from a chartered bank, but I was thinking of borrowing from the Bank of Canada.

Mr. MARTIN: Well, the Comptroller of the Treasury is, let us say, our banker.

Mr. WINCH: There is one more question. Anyone can get money on treasury bills. Can you cash your treasury bills immediately when you require the money?

Mr. MARTIN: Yes, at any time when we need the money.

Mr. BALDWIN: One question on this, Mr. Chairman. I suppose one of the conditions of the loan is that it is earmarked for a specific purpose?

Mr. MARTIN: The money that we borrow is earmarked for capital expenditures.

Mr. BALDWIN: That is the point I make and, consequently, you are limited to that; you cannot use it for service and debt charges.

Mr. MARTIN: Oh, no.

Mr. LONG: Might I add, perhaps the most significant thing about this comment is the date that is involved. This is a balance sheet at March 31. The statement is made that in March \$6 million was borrowed. At March 31, there is on hand \$5,173,000. At March 31, of course, parliamentary appropriations lapse. I do not recall whether that had anything to do with this at the time, but there could be a connection.

Mr. THOMAS (*Middlesex West*): Is this considered by the Auditor General's department or office to be working under a poor principle, or adoption of a poor principle in bookkeeping?

Mr. LONG: I think we feel that if there is authority to loan money and that authority is to lapse it is not cricket to borrow that money to have it just before the authority lapses.

Mr. THOMAS (*Middlesex West*): Wherein does the authority lapse? Does the seaway authority have that authority? Can they borrow money?

Mr. LONG: Perhaps Mr. Martin could tell us the circumstances at this particular time. Was this a loan appropriation that was lapsing on March 31?

Mr. MARTIN: It would have lapsed on March 31. These gentlemen will all know much better than I do—my memory is a little shaky about this—but I also believe that at the time there was an election coming on. In other words, if I had not got my hands on that money, we might have been without it for some considerable period of time.

Mr. BIGG: I seem to detect a feeling with you people that there might be a better way of doing it, I gather than you run out of money or financial stability at the end of every year; could we not do it on some kind of three-year basis or a revolving credit of some sort, so that this particular trouble would not occur? So as not to be caught on March 31 every year either short or too far ahead—I concede you might need a leaway of 5 or 10 per cent for your expenditures, but surely it should not have to cost us on paper, anyway, thousands of dollars at the end of every year.

Mr. MARTIN: It does not really cost us anything; the money goes right back to the government. It just means that I can get hold of it when I need it to pay the seaway's bills.

The CHAIRMAN: I would think, Mr. Martin, that it might be worthwhile to look into the probability of your authority having a bank credit up to x number of dollars so that it is there when you need it. I believe Polymer of Sarnia, which is a Crown corporation, operates on this principle, but I am not sure; but banks are there for the purpose of taking care of peak loads, and I would think this would be the answer if it is within government jurisdiction to do it.

Mr. WINCH: Mr. Chairman, I am very glad that you asked that question, because I think it is rather important. Mr. Martin happened to mention in 1963 there was the problem of an election, and if he had not had \$5 million on hand by the end of March, he would have been sunk. Now have you given any consideration to making any recommendation, considering extenuating circumstances, that there should be a revolving fund—I think that is what you and Mr.

Bigg had in mind—so that no matter what happens you are able to obtain the money—of course, under authority and audit—to carry on. Has any thought been given to that?

Mr. MARTIN: No, sir. And if I may—

Mr. WINCH: Do you need it?

Mr. MARTIN: I do not think so, really. Would you be good enough to look at exhibit 5 in the long form report, which is the balance sheet of the Authority.

Mr. LONG: This is not in the long form report; you have to look at the report of the Authority. It is page 17 of the 1963 report.

● (4:15 p.m.)

Mr. MARTIN: Under Current Assets, you will observe this \$5.1 million item of treasury bills. On the other side, under liabilities, you will note the reserve for replacement of machinery and equipment, \$4.2 million. I stated earlier that \$4.2 million was charged to the Authority's expenses but did not represent a cash expenditure. This is saving money in effect to replace assets that may need to be replaced next year.

Mr. WINCH: Do you hold \$4.2 million to your account?

Mr. MARTIN: It is in the \$5 million, sir.

Mr. WINCH: But do you hold it to your account. Can you write a cheque against that?

Mr. MARTIN: Yes.

Mr. WINCH: The entire portion.

The CHAIRMAN: Mr. Thomas, will you proceed.

Mr. THOMAS (*Middlesex West*): Since the Auditor General has raised a questionable practice does Mr. Long have any suggestions or recommendations to make on behalf of the Auditor General?

Mr. LONG: There are always two sides to these questions. We were faced with a loan being made at a time when it was not actually needed. It resulted in investments. Mr. Martin is quite right when he says they do have this reserve for replacement of assets that wear out. It is a moot point whether you should invest money that you have as the result of such a reserve to bring income in or whether it should be applied on your debts in advance, thereby reducing interest costs. As I say, there are two sides to questions like this. There is Mr. Martin's view, and I can see his point of view, that by investing the money he does have it available when he needs it.

Mr. THOMAS (*Middlesex West*): If it is questionable then I would think that the Auditor General, having brought it to the attention of this Committee, should at least have some suggestions as to how the practice can be regularized or what should be done about it. It is not right. It is questionable and I think it

should be brought into line. That is why I asked are there any recommendations or suggestions how this matter can be remedied.

Mr. LONG: Actually I do not think this situation will arise again. As Mr. Martin says, the \$4 million is included in the \$5 million. Up to this point the Seaway had not been holding the money made available, by this reserve for replacement, as cash. They had been running, shall I say, close to the wire. They had been borrowing money for their capital expenditure as they needed it. At this particular time a change was made. Money was borrowed before they actually needed it but, as Mr. Martin points out, there were operating funds which they had been temporarily using for capital purposes in previous years. There were operating funds available at this time and, therefore, their point is that it is not wrong for them to have an investment of this nature.

Mr. THOMAS (*Middlesex West*): I am new on the Committee so maybe I am asking foolish questions. Could we take it then that this is just for the information of the Committee?

Mr. LONG: Yes; I believe this is a one-time operation.

Mr. BALDWIN: You are filing a caveat.

Mr. LONG: It was a change in practice. We will always point out changes which take place, particularly under the circumstances which existed at this particular time.

Mr. BIGG: It seems to me to be a strange thing that the Seaway are sort of acting as a finance company. To whom do they lend this money?

Mr. LONG: They invest it in treasury bills.

Mr. BIGG: And then earn this \$172,000 profit from dickering around with treasury bills, is that it?

Mr. LONG: Well, that is the—

Mr. BIGG: It is not from lending it out on mortgages or something like that and collecting it that way.

Mr. MARTIN: These treasury bills were actually purchased from the Bank of Canada. They are a government issue.

Mr. BIGG: So, you are really just hedging on your over-all interest rate. Is that it?

Mr. MARTIN: It is hedging on the cash really.

Mr. BIGG: Instead of profit here the investment of surplus funds earned you \$172,000. You are sort of getting back the \$172,000 that might have been paid out in interest somewhere else to the government.

Mr. MARTIN: To the government.

Mr. FLEMMING: I have no special question. My observation is simply this. The Auditor General said it is suggested that the Authority should explore with the Department of Finance the possibility of taking advantage of the provision

of section 27 of the Seaway's Authority Act in order to place funds more closely with the actual cash requirements. It seems to me that this is good financing. They had to pay \$5 million for four or five months hence, and so they buy a treasury bill. Buying a treasury bill is ordinary financing. It is done day after day and day after day. So, they provide for it for two reasons; one is the end of the fiscal period and the other is that there is an election coming on and they feel that they need this money and they just want to protect themselves against any eventuality which possibly might delay getting funds of a substantial amount, which I presume is what was done. So, personally, I see nothing wrong with this except that the Auditor General suggests that they explore this particular section. I wonder what Mr. Martin's comment is in connection with that.

Mr. MARTIN: My comment is that we did explore it and were informed that the rate of interest that the Comptroller of the Treasury could give us would be a half of one per cent lower than we could get on treasury bills. It was to our advantage to keep the money in treasury bills.

Mr. FLEMMING: You made money for the Seaway, so what is wrong with that? I think you deserve to be congratulated.

Mr. WINCH: Mr. Chairman, may I ask one question now, and I am still looking at page 17. I cannot remember the Seaway Authority appearing before the Public Accounts Committee before, so I find this most interesting. But as the Chairman of the Seaway Authority, and Mr. Martin undoubtedly know it is the responsibility of this Committee to report to the House of Commons. I would like to ask, this being the first time you have ever appeared before the Public Accounts Committee—and I am raising the question now because we are asking questions on page 17—if you have any suggestions or recommendations to make to this Committee in respect of financing that we should consider.

The CHAIRMAN: Mr. Martin, if you have, now is the opportune moment.

Mr. MARTIN: I have no complaints whatsoever with the way that we have been treated by Treasury and find no difficulty in making sure that the Seaway can pay its bills and, other than paying back its debt, meet its financial obligations. I would, at this stage, have given no thought to any alternative method.

Mr. WINCH: In other words, you are satisfied with the financing.

Mr. LONG: If you will turn now to the bottom of page 10, reference is made to inventories of \$599,000. This is after allowing for a reserve for obsolescence of \$152,000. During the year 1963 the Authority continued what was referred to as a "stores clean-up campaign" in the course of which obsolete materials were disposed of and certain materials which had accumulated at different points throughout the system during the period of construction were brought under accounting control. The reserve for obsolescence of \$152,000 represented the value of materials which were brought into the account and which had not been disposed of in the course of the stores clean-up. Details are given on page 11 of certain further adjustments which were required following our examination of the stores adjusting entries. These were taken in hand and further reference is

made to them in our report for the year ending December 31st, 1964. I mention this under the 1963 report because it will give you some idea of the way in which the Authority was seeking to have everything in their accounts the way it should be and how we were seeking to assist them by making whatever examination we were able to of their work in this regard.

The CHAIRMAN: I am sure there will be some questions here.

Mr. WINCH: I have one question. When you are disposing of something do you turn it over to Crown Assets Disposal Corporation?

Mr. CAMU: Yes, sir.

Mr. WINCH: Are you given a credit for what is sold?

Mr. CAMU: Yes. Let us say there are several bidders. They take the highest one and we get the credit out of that, and the proceeds usually of the sale.

Mr. WINCH: Crown Assets give you the proceeds of the sale.

Mr. CAMU: We never dispose of anything ourselves.

Mr. WINCH: Crown Assets Disposal Corporation looks after it?

Mr. CAMU: Yes.

Mr. WINCH: But they give you credit for what they receive for it?

Mr. CAMU: Yes, I think so.

Mr. WINCH: And that appears in your books?

Mr. MARTIN: Yes, sir. Once a year. Would you look at page 17 of the balance sheet.

Mr. WINCH: No, I am sorry, it is not on 17. I have been trying to find it.

Mr. MARTIN: I am sorry. It is included in there in accounts receivable, sir. We collect it back once at each year's end.

Mr. BIGG: Do you mind if I ask if you sell them this in lots at some kind of an arbitrary figure or do you get a percentage back of what they sell it for?

Mr. MARTIN: We get 90 per cent of the proceeds.

Mr. BIGG: How much?

Mr. MARTIN: We get 90 per cent and they keep ten.

Mr. BIGG: So it is to your advantage to sell it at the highest possible price.

Mr. MARTIN: Yes.

Mr. WINCH: What item is this?

Mr. MARTIN: It is the accounts receivable there.

Mr. WINCH: On the left hand side?

Mr. CAMU: Yes, the third figure from the top of the 1963 columns.

Mr. WINCH: How much approximately of that \$356,000 would be what you turned over to Crown Assets?

Mr. MARTIN: I will tell you in just a minute sir.

Mr. LONG: Mr. Winch, if you would turn to page 9 of the long form report—this is one of the items I did not touch on because it is in the next 1964 report—you will see there is \$61,256 due to the Seaway.

Mr. WINCH: From Crown Assets?

Mr. LONG: From Crown Assets for the sale of surplus assets.

The CHAIRMAN: Mr. Martin, could you give the Committee any one example of some obsolete equipment that the Authority bought and paid for, then found they had to term it obsolete and sold it to Crown Assets, and what was your loss? Give us your worst example.

Mr. MARTIN: I cannot give you any specific examples, sir, but a great bulk of the material was inherited when we were entrusted with the canals. Other materials were things that I would say were left lying around after the construction. I think that you would appreciate that in a major project like this there is always a certain amount of clean-up to be done.

The CHAIRMAN: They were legacies, most of them.

Mr. MARTIN: Quite a number.

Mr. WINCH: Did you turn over any new equipment that had not been used?

Mr. MARTIN: To my knowledge, no.

Mr. BIGG: Have you any idea at all if there would be used timbers and that sort of thing?

Mr. MARTIN: There would be that and scrap iron. There were a certain amount of parts for the old wooden lock gates in the old canals, just a conglomeration of junk.

The CHAIRMAN: Are you satisfied with the way in which Crown Assets Disposal Corporation handles it?

● (4:30 p.m.)

Mr. MARTIN: So far as I am concerned, yes. I sometimes think we might get more for it ourselves but the law says we have to sell it through Crown Assets.

Mr. WINCH: I have had the same opinion more than once.

Mr. LONG: Turning to page 13 reference is made to the capital expenditures of \$15.6 million in 1963; at the top of the page a comparison is given of these expenditures with the approved budget. By far the greater portion of this represented a payment of \$11.7 million to the Canadian National Railway Company in connection with the Victoria bridge diversion. This payment was made on the instructions of the Governor in Council following consideration of the dispute between the Authority and the Railway as to which organization

should bear this cost. The Governor in Council at the same time directed the payment of \$2.8 million of interest on the claim to the Railways, and this amount was paid by the Department of Transport as a charge against 1963-64 vote 108E.

The CHAIRMAN: I take it, Mr. Carvell, as counsellor, you lost your case. You were fighting another big corporation, the C.N.R. Have you anything to comment on this?

Mr. J. T. Carvell (*Counsel for the St. Lawrence Seaway Authority*): No. I will try to identify what the charge principally related to, which might be of interest. A movable span had to be put into the Victoria bridge for the purpose of passing vessels because the bridge was at too low a level to allow vessels to pass under it without a movable span. The Seaway Authority built the movable span and paid the cost. That was not involved in this issue at all. The railway also built a diversion spur and another movable span downstream from Victoria bridge on the basis that they would need this when the main bridge was interrupted because vessels were going under, they would need a diversion which they could use instead of the main bridge. This \$12 million was the cost of this diversion. The Seaway Authority took the position that it should not be the obligation of the Seaway Authority to provide the railway with a diversionary bridge which it could use during interruptions from the main span. The railway's position was that they were entitled to be put in exactly the same position as they were in before the movable span was inserted in the main bridge. After consideration the Governor in Council directed the payment of the cost of this diversion.

The CHAIRMAN: Has the spur line been used considerably.

Mr. CARVELL: Yes, it has.

Mr. LONG: Mr. Chairman, that completes the more important points of the 1963 report.

The CHAIRMAN: Will you turn to your 1964 long form report.

Mr. LONG: Turning to the 1964 long form report, page one includes the usual introductory paragraph. At the top of page two reference is made to the 1964 revision of the Authority's financing arrangement, whereby interest payments to December 31, 1966, were deferred and commencement of payments of instalments of principle and deferred interest was deferred for a further period of two years to December 31, 1967.

Reference is also made to the Authority's accounting policy with respect to the replacement of worn out assets. Also on page two under the heading of "Operations for the year—Deep Waterway System", it is pointed out that the format of the statement of income and expense has been changed in this year and for the first time shows separately the operating results of the Montreal-Lake Ontario section and the Welland canal section of the Seaway. Income for the year amounted to \$15 million while expenses of operation, maintenance and so on were \$9.6 million, leaving a net operating income of \$5.4 million. This net operating income was insufficient to meet interest charges of \$18 million and provision of \$864,000 for replacement of machinery and equipment. Thus, the

loss for the year was \$13.4 million compared with a loss of \$13.6 million in the previous year.

Mr. WINCH: Mr. Chairman, is it proper that I ask a question? I know you do not know the question yet. This is the only spot where I think it can be asked. I think that all members of this Committee are interested and I know that Mr. Baldwin and myself are particularly interested.

In view of this entire situation now and statement of income and loss in the operation of the Seaway—I know that the Board itself cannot discuss, shall I say strictly governmental policy matters—could the Chairman give us any indication at all whether or not there have been any representations—I am referring now to page three from which you have just been quoting—to the effect that on railroads we pay a subsidy, and whether or not in the public interest we should not pay a subsidy on water transportation. Now, is that a question, sir, that I can ask.

The CHAIRMAN: I think a general observation from the Chairman of the Authority would be in order, bearing in mind that we know the Authority is a servant of the government and we do not expect you to deal with policy.

Mr. WINCH: Also, because of the fact that we have responsibility on this Committee under our Chairman to make a report to the House of Commons. Now, as far as you can go, any advice or any thoughts you could give us, I know Mr. Chairman, you and the rest of us would like to receive.

Mr. CAMU: On the Seaway right now we do not have any subsidies of any kind.

Mr. WINCH: Of no kind at all?

Mr. CAMU: No, we operate through the collection of tolls and other income, from rentals and wharfage and so forth. That is the only source of money we have really to operate and maintain the system.

Mr. WINCH: You always operate on a deficit?

Mr. CAMU: Yes, at the end of the year it is a deficit and these deficits are capitalized at the end of the year. They are piling up and, as we said, one year in our annual report, we are getting deeper and deeper in debt. We used that expression; it is not new.

We have looked at some of the financial answers for tomorrow, what would be the answer and so forth. We have looked into it. But we have no answer at the moment as what to do. Is it better to stop capitalizing the interest or refinancing of one kind or another. We have not examined that for the time being. We started, at one point, to talk with the Department of Finance about it and, if I recall, it was a few years back, and they said to us that at the time of your first revision of tolls we will re-examine this. The first time of the revision of tolls happened in 1964. In 1964, by mutual agreement with the Americans, we decided then to postpone the review for two years as it was necessary to see how the Seaway would materialize and what kinds of shipping trends we would have and so forth. That was one of the main reasons; we postponed that to this moment, this year 1966. In 1966, we have given you, I think, today at one point

or another, an idea that if the traffic materializes in the way it is anticipated, if we are able to have an increase of about 10 per cent on the Montreal-Lake Ontario section, then there might be hopes of a repayment of the capital debt and the operation and maintenance costs as well on that section. As for the Welland canal, that is another problem by itself.

Mr. BIGG: You have pretty well answered the question I was going to ask. I notice that the interest costs have gone up \$1,200,000 and I see the reason why. I think just to refer back to a suggestion made on the previous sitting this morning, it seems all the more reason why we should have an economic survey of the whole problem, so that re-capitalization or some method of reducing this debt could be well looked into.

Mr. FLEMMING: But you have had the economic survey by consultants. They have recommended that you ask for the 10 per cent. With your problems do you think you would be in a reasonably good position, from your point of view, if the 10 per cent increase in tolls was granted?

Mr. CAMU: I could answer, Mr. Flemming.

Mr. BIGG: Would that make the interest go down rather than up? Do you think it would be \$15 million next year instead of \$16 million and so on?

Mr. CAMU: I will ask Mr. Martin to deal with that aspect of it. But before he does I would like to complete my answer to Mr. Flemming which is this. Two years ago, when we decided to postpone our review of tolls, the two agencies together, said—and it is written in the agreement—that the next time we have a chance to do it after two more seasons of navigation, we would be happy to do it because 1964 and 1965 indicated really new trends in shipping and so forth; and we said that the next time we should re-examine the question of tolls as realistically as possible in relation to our financial requirements. This is what we tried to do. So, our consultants were asked to look into this and they did look into it. They recommended, in our case, that we could go as far as 20 per cent without losing a ton of traffic but past that point we would. We looked back at it and, realistically, we interpreted that as being that if we go too far we might lose on other fronts, and so forth. We are not there to lose a ton of traffic and, consequently, a dollar of revenue. So, this is our feeling at this time. It is the best contribution we can make towards that objective.

Mr. WINCH: Perhaps the Chairman will rule out this next question. The government has their problems, let us say, with the Canadian National Railways, they always have a deficit because of the past debt and capitalization. It has been suggested that we wipe out all the past and say, "now you are on your own to function". With regard to the St. Lawrence Seaway, would it be your impression, if we said, "because of the situation, everything in the past is wiped out and you are on your own", that you could function in the black?

Mr. MARTIN: I think there is a fair chance that we could, sir. However, I would point out that the Seaway is not like the CNR in that it does not have a fifty year accumulation of debt piled up. The Seaway is a new facility which has been in operation for only seven years. While we have accumulated a somewhat larger deficit than we counted on during this period, it was always expected

that in the early years of the Seaway it would run at a deficit, which we would make up later on. At this stage of the game, if I may express an opinion, I would say it would not be correct to eliminate this deficit.

Mr. WINCH: Do you mean then that, under the existing policy and law regulations, you hope to be able to repay that debt?

Mr. MARTIN: I hope so, sir. If we get the traffic that we expect the proposed tolls increase should go at least a very long way in doing it; and we will start, not only paying off the interest but reducing our debt in due course.

The CHAIRMAN: Mr. Martin, I think it would be of interest to the Committee if we knew the financial position, just by way of comparison, of your Authority and your counterpart, the American Authority, on the same section of the St. Lawrence.

Mr. MARTIN: I can give you exact figures for our own. I will have to do a little guessing for the American Authority's because I do not have the figures with me. I will give the most up to date figures which are as at the end of 1965 for the St. Lawrence River section. Our debt including interest is \$370.8 million. The American debt is \$141 million, which is roughly in the ratio of about 70 to 28.

The CHAIRMAN: But taking, for instance, the year 1964, there is a net loss of \$13,481,000 for the Canadian operation. What would the American figure be?

Mr. MARTIN: Where did you find that?

The CHAIRMAN: On page two of the long form, 1964, at the bottom of the page.

● (4.45 p.m.)

Mr. MARTIN: Yes, sir, let me make a quick calculation here. What we can compare with the United States is the Montreal-Lake Ontario section only on which we lost \$4.8 million. Their loss was approximately \$700,000. I believe I can give you the exact figure on that.

The CHAIRMAN: I think maybe that will take a little time. We will proceed, Mr. Long. We will come back to that, Mr. Martin.

Mr. MARTIN: The \$700,000 is just about right, sir.

The CHAIRMAN: This is an interesting observation, and there are some questions on that. Was your question, Mr. Baldwin, along those lines?

Mr. BALDWIN: Well, it is along those lines. I assume that the firm of consultants did a projection for you in advance, of tolls, operating costs, and so on. Are you free to tell us in general terms how many years ahead that was. Was there a time in that projection when the estimated tolls would come close to equalling the operating costs and the interest; if so, what would be the amount of the tolls as of that year. And, did the projection take you to a point when the tolls would equal the operating costs and the interest?

Mr. MARTIN: I am sorry, I do not have the material with me, sir, but the tolls on the St. Lawrence river section will equal operating costs and interests within four or five years from now, if the traffic forecasts are materialized.

Mr. BALDWIN: And are you able to say in round figures what the toll figures would be in that year?

Mr. MARTIN: We cannot say what they are going to be, sir.

Mr. BALDWIN: Just what the projection is.

Mr. MARTIN: You mean in terms of income?

Mr. BALDWIN: Yes, in terms of income.

Mr. MARTIN: I am sorry, it is very difficult; I have not the figure here. But, it will be about \$26.5 million of which we will get 72 per cent. We will get about \$19 million.

Mr. WINCH: For what year?

Mr. MARTIN: By about 1970, I think.

Mr. FLEMMING: Mr. Chairman, is that taking into consideration any increase in the rates of tolls?

Mr. MARTIN: Yes, this is on the assumption that the tariffs will be increased.

Mr. CAMU: This is an assumption; they have not yet gone through. I think we have given to the secretary of the Committee a copy of what we call a summary of future traffic estimates and toll requirements which is available to anyone who will appear before the public hearing. There are enough copies for every member of the Committee. This includes the traffic forecast range for the years 1965, 1970, 1975 and 1980.

The CHAIRMAN: Thank you, doctor. I wonder, Mr. Martin, if you could give us some reasons why the U.S. authority on the St. Lawrence shows an operation deficit of \$700,000, and our operation is \$4.8 million in the same year. There must be some reason.

Mr. MARTIN: A very simple reason, sir. They have to pay for the cost of operating only two locks in the lower St. Lawrence section, whereas we operate five locks plus the South Shore canal, the Beauharnois canal, and the Iroquois canal.

Mr. WINCH: Are we not paid by the federal government for those canals?

Mr. MARTIN: Not our own canals, sir.

Mr. WINCH: Oh, we are not?

Mr. MARTIN: No.

The CHAIRMAN: Have they a debt charge similar to ours?

Mr. MARTIN: Their debt is in proportion to ours; they have a slightly lower interest rate because, as everyone is aware, interest rates in the United States are lower.

The CHAIRMAN: It would take more than seven locks to make up a difference like that, \$4.8 million compared to \$700,000. Surely there must be some reason, such as a greater volume of traffic and so on.

Mr. CAMU: Yes, Mr. Chairman, but there are other factors like the distance, for instance. It is not comparable. They have a pool between their two locks and approaches on either side, which is a total distance of about five or six miles. One of our canals, the South Shore canal in Montreal, is twelve miles long with many bridges, and so forth. So, with all these assets together there is quite a difference.

Beauharnois is nine miles long; we have two locks there, three more bridges, and so on. So, when we start adding up one section after another, that is the picture. Their share is about 20 or 25 per cent, and ours represents the rest.

The CHAIRMAN: Are there any further questions?

Mr. BIGG: When you are showing this net operating loss on the Welland section, and suppose you twin one of the locks, would you charge that up as a capital expenditure against the net loss for the year, just because you built it in 1964?

Mr. MARTIN: No; any such items are capitalized as assets.

Mr. BIGG: They are not included in this column?

Mr. MARTIN: No, they are not, sir.

Mr. BALDWIN: Was the reason you left your borrowing power in 1963 at \$180 million to cover that—

Mr. MARTIN: To cover the capital expenditure, yes.

Mr. LONG: On page 3, the estimates of the loss resulting from the suspension of tolls on the Welland canal in July 1962 is given as \$2.2 million for the year.

A table is given showing how the revenues in 1964 fell short of meeting expenses in the two sections of the Seaway and in the case of the north channel bridge. It is mentioned that these figures do not include a provision for repayment of the capital indebtedness of \$326.7 million in respect of the Montreal-Lake Ontario section of the Seaway which present legislation requires be paid out of earnings by December 31 in the year 2009.

Reference is made on page 4 to the division of toll revenue derived from the operation of the St. Lawrence River section of the Seaway between the authority and the St. Lawrence Seaway Development Corporation of the United States. It is pointed out the initial division was 71 per cent to the authority and 29 per cent to the corporation. These percentages were subject to adjustment from time to time so that the authority and the corporation would receive a

proportion of the tolls in the ratio of their respective annual charges for operation, maintenance, interest and retirement of debt.

As pointed out at the top of page 5, calculations by the authority showed that on the basis of these annual charges the division should be 73 per cent for the authority and 27 per cent for the corporation; and it is stated that if these percentages had been in effect the authority would have enjoyed an additional \$328,000 revenue in 1964.

As mentioned by Dr. Camu this morning, the initial division was maintained throughout the year 1965, and it applies also to 1966, but quite recently an agreement has been reached whereby the percentage has been changed to 72 per cent to the authority and 28 per cent to the corporation, which rates are to remain in effect for a period of five years beginning in 1967. This division does not, of course, give the authority a percentage quite equal to the percentage of its annual charges, but presumably represents the best arrangement the authority was able to negotiate.

The CHAIRMAN: Now do you negotiate these percentages? What is the procedure, doctor?

Mr. CAMU: These, Mr. Chairman, were negotiated between the United States Seaway Development Corporation and the Canadian St. Lawrence Seaway Authority. They were very long and difficult negotiations, and it took a very long time. We started early in 1963; we had difficulties, and so forth, but finally succeeded recently. This agreement is for a five year term. Once an agreement has been reached, this is always followed by an exchange of notes between the two countries, and it becomes official.

Mr. LONG: Turning to page 5, reference is made to the relief given to the authority in 1964 with regard to its difficulties resulting in part from the suspension of tolls on the Welland canal. This relief consists of the conversion of \$21.8 million of the Authority's indebtedness to an interest-free loan; the payment to the authority of an amount of \$27 million to cover the accumulated Welland canal deficit, and the understanding that future annual operating losses of the Welland canal are to be met with parliamentary appropriations.

Reference is made on page 6 to the statement of income and expense for the year 1964 which provides an analysis of the operation, maintenance and regional administration expenses for each section of the seaway, and to an additional statement given this year which provides an analysis of the headquarters administration and engineering expenses for the year.

Near the bottom of the page an analysis is given of the expenses by major categories from which it can be seen that employee costs including benefits accounted for 65 per cent of all Seaway expenditures. These increased by 10.8 per cent in the year, which is explained as resulting from pay increases of 8 cents an hour, the staffing of the Welland canal modernization and twinning project and increases in the engineering staff in Montreal.

Mr. WINCH: Am I correct that the increased cost on the Welland Canal and the cost of twinning is no charge to the authority and the federal government pays everything on that?

Mr. MARTIN: This is correct.

Mr. WINCH: So there is no extra charge to you on that?

Mr. MARTIN: That is right.

Mr. FLEMMING: It has been mentioned that future operating losses in the Welland section are to be met by parliamentary appropriation. Is there any appropriation in the estimates for the current year to cover this?

Mr. MARTIN: This is done, Mr. Flemming, in the same way as the CNR deficit is dealt with annually. In other words, in the final supplementary estimates in March of this year there was an amount of \$8.2 million in respect of the loss we sustained in 1965.

Mr. FLEMMING: You handle it at the end of the period rather than at the beginning?

Mr. MARTIN: That is right.

Mr. WINCH: Do you have to carry that loss for a year?

Mr. MARTIN: No, because the Comptroller of the Treasury gives us what you might call interest-free temporary loans.

Mr. WINCH: Interest free?

Mr. MARTIN: Yes.

Mr. WINCH: I am going to ask an ex-cabinet minister how that works!

Mr. MARTIN: This is provided for in Section 23 of our Act.

The CHAIRMAN: When the next supplementary estimates come before the House we will be better versed when we see this item appearing, Mr. Martin.

Doctor, 65 per cent of your total operating costs are under the heading of employee costs including benefits, and so on. Is your staff increasing all the time, and are you confronted with negotiations with unions, and so on?

Mr. CAMU: Yes, Mr. Chairman, our operation and maintenance employees are unionized; they are represented by the CBRT, and we have been successful in negotiating with them, first, on a 3-year contract, then a 2-year contract, and we have had no contract since January 1, although we are in the middle of negotiations. In fact, they broke these negotiations recently. We went through all the steps: the conciliation officer, then the board of three men, and so forth. If you have read the statement in this morning's papers, you will know that negotiations are off.

They are asking basically for a 35 per cent increase and a 2-year contract; there are a few other clauses and so forth. This covers about 1,200 of our employees. We also have a group of about 100 office workers represented by the same union, most of them in Cornwall. This is our second group. We have made them an offer. Mr. Cardin was a member of our negotiating committee. If you wish to have more information on this perhaps we could supply it.

The CHAIRMAN: I do not suppose that is necessary.

● (5.00 p.m.)

Have you a personnel section?

Mr. CAMU: Yes, we have our own personnel section in Cornwall and the administration branch. We follow very closely the Civil Service Act in most cases. We have our own health insurance plans and we have also fringe benefits, and so on.

The CHAIRMAN: You hire your staff outside of the Civil Service, you are not—

Mr. CAMU: Yes, directly with advertisements in the paper, and so forth, all over the place.

Mr. WINCH: Could I ask if you have an understanding with your organized employees so that there would be no disruption of services?

Mr. CAMU: After the—

Mr. WINCH: Well, they are in negotiation now. In view of the importance to the economy of Canada do you have any unofficial understanding with the employees that there will not be any disruption of service?

Mr. CAMU: I do not think we have that do we, John?

Mr. CARVELL: There will be when the conciliation proceedings are completed. There is none at the moment as a collective agreement between the union and the Seaway Authority is required to ensure that. They are seeking a new agreement and conciliation is proceeding. At the moment we are still protected by labour law from any disruption but we can anticipate that they might go beyond the period during which we would have protection against disruption, if the conciliation proceedings do not succeed. As I say, they are going on.

Mr. WINCH: Is there a fairly good relationship between you and the employees?

Mr. CARVELL: Yes, I think we have quite a good relationship with our employees.

The CHAIRMAN: Do you have periodic studies made of job evaluation or efficiency surveys or something like that.

Mr. CARVELL: Yes, and done jointly with the union. We have completed a job evaluation in certain categories very recently. It was done jointly between our personnel section and the union national office.

Mr. CAMU: Mr. Chairman, perhaps I can answer your question. The number of our working force is pretty stable from year to year. It has always been around 1,500, with up to about 1,600 at times. It never fluctuates more than that.

Mr. WINCH: What happens when you have to close down because of the weather. Is your general staff still able to carry on in other work?

Mr. CAMU: Oh, yes, our employees are on a year round basis with us. It is not part time, it is year round. We have a very interesting cycle so to speak. As soon as the season is over then we have a program of major maintenance over all, inspection and so forth. Through the winter we have inventories of stores and supplies, and so forth. We have courses in the winter for our own technical personnel where we try to improve their knowledge of the operation, and so forth and, by the beginning of March, everybody is back in action to oil, gear the material and be ready for the opening of the season. This is the cycle.

Mr. LONG: Reference is made at the top of page 7 to savings which resulted from amalgamation of the former central region administration with that of the eastern region and by transferring to the Department of Transport some of the employees who were previously engaged in channel sweeping for the department on a recoverable basis.

Reference is also made to the practice of paying grants in lieu of taxes on submerged land which I would like particularly to draw to the attention of the members of the Committee. Should lands which are flooded permanently be subject to grants in lieu of taxes indefinitely? You will see that the Authority pays approximately \$30,000 in annual grants in lieu of taxes on land covered by water at the Lake Ontario and Lake Erie entrances to the Welland Canal and at the St. Mary's River entrance to the Sault Ste. Marie canal. This is a very big question and is not confined to the Authority which is following the practice established by the municipal grants division of the Department of Finance and the Department of Transport. We hope to be able to look further into this problem but we would be very interested in any comments that members of the Committee might care to make concerning it.

Mr. BALDWIN: In other words, you take over the role of the government departments which pay to various municipalities grants under the legislation and these grants are fixed. There is an understanding, I think, on the same basis as if the government, for example, was a taxpayer, in that the government does pay an amount which would be comparable to that paid by a private individual or a corporation. This point was raised by the Auditor General. The amounts of evaluation which I see here have been fixed at \$354,496, including \$292,000 for 46.7 acres, over half of which it is suggested was naturally submerged not artificially as a result of your operation.

Now, does the government pay on a comparable basis with respect to other lands under this legislation? Are you simply following the same practice as the government?

Mr. CARVELL: As Mr. Long indicated, we are merely perpetuating the practice which is government practice. This was the practice of the municipal grants division of the Department of Finance and of the Department of Transport in respect of these specific lands before they became charged to the Seaway Authority.

Mr. BALDWIN: This practice was drawn up under the development of this municipal branch legislation?

I must say that I find it difficult to understand the basis on which grants are paid in respect of naturally submerged lands and which would not be of use or value under normal circumstances.

Mr. WINCH: It also intrigues me, Mr. Chairman. As all the members may know, I come from Vancouver and, in Vancouver if the water is on low level, then it is within federal authority and federal ownership because only on low level is land completely submerged. If it hits high level—between low level and high level—then there is a question whether the municipality has authority. On low level it is completely federal and no municipality in British Columbia can charge or pay in lieu of taxes on that which at all times is completely covered by water. You have a point here where you say it is completely covered by water, so is it federal or should you pay in lieu of taxes? I think it is a point that requires legal authority but it is rather an intriguing one because if you can get away with this the city of Vancouver would love to get that!

Mr. BIGG: Is not submerged land very valuable for dockage and such facilities? Perhaps the canal authority want to keep turning places, and so forth for their ships and if they do not own the land under the old right of way of the river may be in difficulty. They expropriated this originally, and now we are making concessions to these municipal authorities to take off any financial burden which they may have had by not being able to sell the land under the canal or under the approaches.

Mr. WINCH: Mr. Bigg has asked a very important question. Is this completely submerged land of such value or use to the Seaway Authority that you pay the \$30,000 in order to have it. If you are paying in lieu of taxes, then you own that property. Now, is that land of such value to you that it is worth while putting it in the hands of legal counsel to ascertain whether or not you have to pay taxes.

Mr. CAMU: There is a point there, Mr. Chairman, but really I have no answer to that question. I, myself, find it complicated but if I go back to the Vancouver problem you have raised, I can see a distinction between the two. You have tide there so part of the land is uncovered at low tide. Is there a difference between submerged land at high tide and low tide or where there are tidal influences? In the Seaway we do not have tides from Montreal up. This is unknown to us. We have two kinds of land; artificially submerged land which is really part of the canal and naturally submerged, the entrance to it at either end, and this is part of the difficulty. It is really the entrance to the canal where there are dikes in the lake about a mile or two, dikes with a lighthouse on them and so forth. So that is part of the system. But to go beyond that, I have no comments.

Mr. WINCH: I take it then that you prefer to pay the \$30,000? It gives you, without question, the control of the area you just mentioned.

Mr. CAMU: That is what we have said. We continue to pay grants.

Mr. FLEMMING: But, Mr. Chairman, is not the basis for the municipal grants the fact that with the coming into being of the St. Lawrence Seaway a revenue producing item was lost to the municipality, by virtue of its being flooded? Is that not the basis of it? Regardless of how it came about, I presume, these municipalities lost a revenue producing item? So, consequently, in the adjustment between the St. Lawrence Seaway and that municipality they make these grants. Am I right about this?

Mr. MARTIN: That is generally true, Mr. Flemming. There is a big distinction. Mr. Winch spoke about land on the coast covered by water. The question there is, in whose jurisdiction is it? But in our instance it is all inland areas, there is no question of ownership. We own land in some instances which is naturally submerged and it was acquired from the province who owned it before the federal government established title to it. It was acquired one way or another. With respect to other land, the federal government moved in; it was dry land, and they dug a ditch and brought water in. It is a canal and it is artificially submerged. Both the statutes in Quebec and Ontario say that land covered by water is subject to taxation. Having said that, it becomes a question of valuing the land covered by water and establishing a rate for it. With respect to the valuation of land which is covered by water where it has been ditched and converted into a canal, the government's practice, which we follow, is to give it a value in relation to the land adjoining it, and say that if it had not been ditched and was not submerged, it would have a value comparable to this adjoining land and to pay grants on that basis, which we apply exactly.

Where land is naturally covered with water, it was at all times, in memory, the bed of a stream or the bed of a lake. The question is whether a value can be ascribed to that for taxation purposes. Whether that land has a potential use is something which is easy to see. Hon. gentlemen have expressed their difficulty in understanding how it could have a value. At any rate, we feel that we have to follow the precedent which was set before this land came in to our charge and we have to continue to pay grants, in lieu of taxes on this land that was artificially submerged, to the municipalities where it was paid previously, Port Colborne, et cetera. We have put one little gloss on it and that is that we say that the valuation of this land is no longer subject to fluctuation. The valuation of land artificially submerged is subject to fluctuation when the value of adjoining land fluctuates. But we say that land naturally covered with water is not liable to fluctuate as the adjoining land value has no relationship with this. It never was land.

Mr. WINCH: Why do you take that position? If the adjoining land goes up and it is known that you have to have this land almost in perpetuity, why should you be subject to any increase in taxes on that?

Mr. BIGG: I think I can answer that one, if I might. If you build a seaway and you bring in a million people into a place where there was no town before, it does not seem right that the Seaway should have to pay exorbitant rents or payments in lieu of taxes when you created the city out of the wilderness.

Mr. WINCH: That is my very point. It is because of the Seaway that it goes ahead. Why should it be subject to increased taxes?

Mr. MARTIN: They are not, they are stunted down at a—

Mr. WINCH: Oh, I understood you to say that it does fluctuate according to the increase in the land adjoining it which was artificially flooded.

Mr. BALDWIN: If it is artificially flooded it is subject to fluctuation.

Mr. WINCH: Why should it?

Mr. MARTIN: Again, we apply the federal practice. Mr. Biggs' observation was that if the Seaway were responsible for the development in the area they should not be burdened with this. There is another viewpoint on it, namely, that, whether the Seaway is responsible or not, the community has the burden of providing services—

Mr. WINCH: Not on the flooded land.

● (5.15 p.m.)

Mr. MARTIN: —on the land which we use. The artificially submerged land or anything that we refer to relates to the municipalities which existed at the time, at least, of the building of the present facilities.

The CHAIRMAN: Gentlemen, I do not like to interrupt. This is a huge subject and we have a lot to cover here, so we will have to move rather quickly.

Mr. LONG: On page eight there is a continuation of the comments on the increases in expenditure in 1964 over 1963. The table on page six indicates that the largest increase is one of 119.5 per cent in major maintenance materials and services. It is explained here that these expenditures were all on the Welland Canal, \$253,000 being expended on modification of the canal lock control system, \$159,000 on replacement of valve operating machinery at the lower end of lock No. 2 and \$108,000 on repairs to a bridge. A new item of expense in 1964 was an amount of \$256,000 spent on a traffic survey to relieve shipping congestion in the Welland Canal. This survey was expected to cost a total of \$800,000 and with changes in operation, traffic control and lock approach procedures, it was expected to increase the capacity of the canal by 40 per cent by the opening of the 1967 season.

At the bottom of page eight, reference is made to an expenditure of \$41,000 for the transfer of employees during the year and to the four types of costs which the Authority pays as a matter of policy. These are head of household allowance of \$500 to cover sundry expenses; homeowners allowance of up to \$1,200 in respect of upkeep and carrying charges for a period of six months that a house remains unsold; real estate agent's commission and legal fees in connection with a sale of a house, and tenants cost in terminating a lease. It is also pointed out that one employee who received a homeowner's allowance of \$1,200 was also paid \$1,000 in connection with a loss sustained in the sale of his house, and another employee received a \$1,800 contribution toward the loss sustained and in lieu of other allowances which might have been payable had he not accepted the purchase offer.

The CHAIRMAN: Doctor you might like to give a reason for those two items.

Mr. CAMU: Mr. Martin could make some comments on that, Mr. Chairman.

Mr. MARTIN: First, gentlemen, if I might elaborate on the figure given in the Auditor General's report, the total of removal expenses was \$20,900. This sum of money was paid to 35 individuals as follows: there were 10 individuals who were relocated as a consequence of the disbandonment of the former central division which was located at Cornwall. Most of these employees were moved to

St. Lambert. The cost of moving the ten was \$12,495. There were eight new employees who were taken on in connection with the twinning project. I remember that one came from Alberta, another came from Newfoundland; I cannot remember precisely where the others came from but we contributed to their moving expenses to the extent of \$2,816. Then there were other transfers within the authority. Seventeen people were moved which cost us \$25,652. To break that down, the expense of moving the 35 employees' furniture, paying their train fares, a certain amount to hotel accommodation while they were finding a new place to live and so on, accounted for a total of \$16,217. These were all transfers. There were 21 people who received allowances to cover miscellaneous household expenses of removal and relocation—I think that is what Mr. Long referred to as the householders' allowance—and that cost us \$9,363. Nine people received allowances for carrying charges on unsold residences, and that cost us \$7,262.

The CHAIRMAN: Would you please explain why that is necessary, Mr. Martin?

Mr. MARTIN: Fundamentally, it is the problem in Cornwall, which is a depressed area. If an employee is transferred, it is very difficult for him to sell his house. Very few employees can afford to carry an empty house in one location and another one in their new place of employment. The difficulty was that, in many cases, there was no change in the employee's salary involved or else it was a relatively insignificant increase he was receiving, and to induce these employees to accept the transfer it was necessary to relieve them of some of these burdens.

Mr. CHAIRMAN: Is this general practice?

Mr. BIGG: If this were part of their terms of employment, it would be more understandable.

The CHAIRMAN: If there are no further questions, we will move along.

Mr. WINCH: You mentioned bringing in new employees from Alberta and Newfoundland. Were they new employees?

Mr. MARTIN: Yes.

Mr. WINCH: When you require additional employees on the St. Lawrence Seaway I presume you bring in new employees who, I presume, want the job? Is it your policy in this connection to move them and pay for their expenses?

Mr. MARTIN: The difficulty is it has become necessary to make such arrangements with employees in order to induce them to leave their present job.

Mr. WINCH: What type of employees would these two be, engineers or something of that nature?

The CHAIRMAN: Engineers.

Mr. CAMU: Highly specialized people.

Mr. BIGG: Might I suggest that we raise their general pay rather than induce them by fringe benefits. It seems to me that it would be far better to give a highly needed professional man \$15,000 a year rather than \$12,000 and then, through paternal actions build up an empire within every crown corporation in Canada. If you are going to pay allowances for housing, keeping the wife happy, getting a divorce and so on, goodness knows, where it is going to end.

Mr. MARTIN: I have a newspaper clipping here from the *Globe and Mail* of October 13, 1965, reporting upon a survey conducted on this very thing. I will just read one paragraph. First, the survey included 110 firms employing about one million people. Payrolls ranged in size from fewer than 500 to more than 25,000 employees. With particular reference to paying the moving expenses of newly hired employees, I will read the following paragraph:

About two thirds of the surveyed firms pay moving expenses for newly hired persons, particularly in the case of management and professional personnel. Intense competition for good recruits was given as the reason for offering this assistance.

Mr. BIGG: Might I ask for guidance then? Would it pay the crown to raise the general standard of professional services? It must be a great expense to the minister's office to have clerks checking the moves, seeking homes for them, assessing the rental possibilities in Cornwall and this sort of thing. How much does this sort of service cost?

Mr. MARTIN: It costs very little, sir. I think the point is, if you give an employee an increase, it is going to go on for the rest of his career, amounting to thousands and thousands of dollars, whereas, if you pay moving expenses, it is a one shot affair.

Mr. CAMU: Mr. Chairman, there is another reason behind it too. We are unable to get these specially trained engineers—because it applies mostly to them—from Quebec and Ontario as the competition is too stiff, so they are coming from other provinces. Mr. Martin has given you the case of one from Newfoundland and another from Saskatchewan. We were able to hire them but they said one of the conditions is that their removal expenses be paid.

The CHAIRMAN: I think we have covered the field.

Mr. WINCH: There is one more question. In the operation of the St. Lawrence Seaway what specialized engineers do you require?

Mr. CAMU: Hydraulics, mechanical, electrical, structures, concrete and soils.

Mr. LONG: On page ten of the report reference is made to the toll bridge operations. I am not sure if members of the Committee are familiar with the toll bridge at Cornwall. I was going to give you a description of the setup and the operation but I can skip that if members are already familiar with it.

On page 12 reference is made to capital expenditures of \$293,000. This represents mainly expenditure of \$281,000 to purchase property with a frontage on the Cornwall Canal land. This property was originally expropriated by the Department of Transport in 1955 in anticipation of the building of an all Canadian seaway. The expropriation was abandoned in 1956 because of de-

mands for compensation made by the owner which resulted in the department deciding that the purchase of the property should be deferred until the land was actually needed for canal purposes. The property was surrounded by crown-owned lands and it seemed evident that it would have to be expropriated eventually but, nevertheless, in 1956 the owner constructed a 96,000 barrel fuel oil storage tank on the property and installed an oil pipeline across the crown-owned lands to the dock on the canal. For several years the owners tried to sell the property to the Department of Transport and later to the Authority and in 1961 offered it at the price of \$280,000, and further offered to lease it back from the Authority at an annual rental of \$16,000 for a period of 15 years, subject to cancellation at the option of either party on six months' notice. The property was purchased on this basis but it was divided into two parcels for leasing purposes, and four days after the signing of the lease the owner gave six months' notice of cancellation of the lease on the parcel which was not required for the oil storage tank. The rental on this property would have amounted to \$90,000 over a 15 year term of the lease. The purchase price of the property was \$132,000 greater at the time of purchase than it would have been when the original expropriation took place because of the installation thereon of the oil storage tank in the meantime.

The CHAIRMAN: This is one that we could spend a long time on, I am sure, but there is just one question I would like to ask. Why did the Authority allow that man to put a pipeline across crown-owned land without obtaining an easement?

● (5.30 p.m.)

Mr. CARVELL: It was a trespass because it did not come to the attention of the custodian of the lands, which was the then central regional district, until sometime after it had been done. When it was discovered, it was regularized by having them enter into a lease for their easement and pay a rent on it.

Mr. WINCH: Why did you not sue for trespass? Would not a logical thing to do be to sue for trespass, in view of this situation?

Mr. CARVELL: I do not know, Mr. Winch, that the amount of damages in a trespass action would have been any more favourable to the Authority.

Mr. WINCH: That is not my point. There was trespass?

Mr. CARVELL: There was trespass.

Mr. WINCH: Right, sue for trespass. He spent \$132,000 on his oil tank, which he could not use. Why did you have to go ahead and pay for it then when he could not use his tank. He had to get that pipeline across crown property. I am no lawyer, but I would like your comment on that.

Mr. CARVELL: He would have been unable to—

Mr. WINCH: Yes, he would have been unable to use his \$132,000 tank.

Mr. CARVELL: I suppose he could have used it but if he did, he may have had to make other arrangements for filling or emptying them.

Mr. WINCH: How could he? He was completely surrounded by crown property?

Mr. BALDWIN: What offer had been made for the lands before the expropriation proceedings were commenced? I assume there had been negotiations entered into by the Authority or whoever was then representing the Authority. Do you know the price offered for the land before expropriation proceedings took place?

Mr. CARVELL: Mr. Long has indicated the amount which it was agreed to pay.

Mr. LONG: I do not think I mentioned the original expropriation price.

Mr. CARVELL: It is here on page 13. I thought you were referring to the price at which the Authority acquired it. The previous acquisition had been conducted by the Department of Transport.

Mr. BIGG: Do you have the figures?

Mr. CARVELL: We do not have records of that. The Department acquired it, the department abandoned it, and the reason they abandoned it was because of difficulties in negotiations for settlement. I do not know how much the offer was that was refused or what the demand of the previous owner was at the time of the 1955 expropriation.

The CHAIRMAN: I guess this happened before the Authority took over.

Mr. CAMU: It was started before, and the file was transferred to us.

The CHAIRMAN: We cannot blame you for it.

Mr. CAMU: We will solve the case one way or another.

Mr. THOMAS (*Middlesex West*): May I ask Mr. Long the reason for this being drawn to the attention of the Committee by the auditors?

Mr. LONG: This was made a matter of record to the Authority and also to parliament in our annual report because of the extra amount of money that was paid out because of the way the matter was handled.

Mr. THOMAS (*Middlesex West*): Can anything be done about it at this time?

Mr. LONG: I do not suppose so.

The CHAIRMAN: Could it have been brought to the attention of the House sooner?

Mr. LONG: No, I do not think it could. This is a case of management acting in accordance with its responsibilities. When you see something with a history like this it indicates there has been more money laid out than probably would have been necessary had the matter been approached in a different manner in the first place.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, could the Committee make inquiries whether or not an inquiry should be instituted into this transaction?

The CHAIRMAN: Was this easement across this land given by the Department of Transport?

Mr. CARVELL: The easement was subsequently given by the Authority.

The CHAIRMAN: I should say without obtaining an easement. This gentleman put the pipeline across crown land. Who was in control of things when they allowed that to happen?

Mr. CARVELL: I think probably that was when the Authority was in control of the land.

The CHAIRMAN: The Authority that is here before us now?

Mr. CARVELL: Yes. Lally-Munro Fuels Ltd. had been tenants of the area for a long time during the tenure by the Department of Transport. They had always loaded and unloaded from the dock at that site. They had a lease of a dock. They put this pipeline across Authority-owned land and it was a trespass at the time they did it.

The CHAIRMAN: This is the part we are interested in. Why did you allow this to happen?

Mr. WINCH: Why did you then give them an easement? Why did the Authority allow this man to run a pipe across land that the government owned without his obtaining an easement? Why did you allow this to happen?

Mr. CARVELL: It was undetected at the time he did it.

The CHAIRMAN: Yes, I know it was undetected but why did you allow it to go without being detected?

Mr. WINCH: And, after it was detected, why did you agree to it?

Mr. BIGG: It seems to me that it has always been the prerogative of people in business that they do what they can with crown land. If you are running a logging firm, you go across crown land. This is a trespass, in a sense. If you do it for 20 years, you have a right-of-way. If this pipe had been undetected for 20 years—I stand to be corrected by the lawyers—I believe they would have an easement by prescription, and they could pipe that oil across there if they wanted. If a man is out to try to make an honest dollar, builds a pipeline and nobody says anything about it, and he uses it for 20 years, he gets it free. It is not a criminal offense.

The CHAIRMAN: I think we want something more from the Authority on this matter, perhaps some reasons this came about. The Committee will want something more specific than they have so far.

Mr. THOMAS (Middlesex West): Mr. Chairman, the other day we appointed a subcommittee of three of our members who have had the advantage of legal training to make inquiries into a similar situation and to advise the Committee what action might be taken or what recommendation the Committee should make. Possibly, this is another case where similar action could be taken.

Mr. WINCH: I do not think so. I do not know whether the importance of this has struck the Seaway Authority.

The CHAIRMAN: Mr. Winch, I think we know the seriousness of it. I would not take time on that.

Mr. WINCH: I was going to say, Mr. Chairman, because of the importance of this, you should now ask for a complete explanation from beginning to end.

The CHAIRMAN: Were you the Chairman at that time, Mr. Camu?

Mr. CAMU: Yes, I was a member of the Board then, Mr. Chairman.

The CHAIRMAN: But, you were not the Chairman.

Mr. CAMU: No, I was not. I was a member of the Authority.

The CHAIRMAN: You are familiar with it then?

Mr. CAMU: Partly. You see, this all started before 1956, and the 96,000 barrel fuel oil storage tank and so forth was transferred to us in 1959. And I cannot understand why this property was not expropriated then. Normally it should have been expropriated like anything else related to an all Canadian seaway and its needs in the future at one point. This was left out as an enclave and was not completely settled.

Mr. WINCH: I understood you to say sir, when the pipeline was put over it was under your Authority.

Mr. CAMU: Yes, but the pipeline came later on.

Mr. WINCH: It was under your Authority then?

Mr. CAMU: Yes.

Mr. BALDWIN: We could ask for this information to be furnished in detail, but I think there are the two problems. First, I think Dr. Camu put his finger on one, which is very definitely, wrong; if the property was, in fact, expropriated none of this need have come about if, in 1956, the Department of Transport had not, at that time, abandoned the expropriation. I think we first want to find out why this was abandoned, and probably Dr. Camu could get this information from the Department of Transport. If not, we could. Also, we should know the amount for which the expropriation had been made so we know what the price was then. Then we come to the second point. Why was the pipeline laid, and why were these people allowed to lay it? Why was it not detected? When detected, why was the easement then given? These are the two things I think we should have clarified.

The CHAIRMAN: How would the Committee like to do it? Could the same subcommittee handle this matter?

Mr. BALDWIN: I was going to suggest that probably we could get an explanation and have it filed with the secretary of our main Committee a full and detailed statement and then we could decide whether or not we want to refer it.

Mr. WINCH: That is exactly what I had in mind.

The CHAIRMAN: Is this agreeable to you, Mr. Thomas? You raised this originally.

Mr. THOMAS (*Middlesex West*): Yes.

Mr. LONG: Turning to page 15, I would draw your attention to an amount of \$250,000 owing to the Authority by three municipalities as their share of the cost of extending a collector sewer constructed as the main part of the Authority's South Shore remedial works. Two of these municipalities are, apparently, in financial difficulty which accounts for the fact that this amount has remained unpaid for some time.

Mr. BALDWIN: Mr. Chairman, I must go. I will be here in spirit but I have an appointment at 5:45.

The CHAIRMAN: We will let your spirit sit in the same seat.

Mr. BALDWIN: I will disclaim responsibility for any questions my spirit asks.

The CHAIRMAN: All right. Thank you Mr. Baldwin.

Mr. LONG: I think this is a point in which the members will be interested. At the bottom of page 15 it is pointed out that of a combined Canadian and American toll assessment of \$19 million in 1964, only \$24,000 remained unpaid. This amount was owing by a bankrupt shipper that was more than covered by securities held by the Authority. At the top of page 16, reference is made to tolls amounting to \$110,000 which still remained unpaid from the 1959 season because of the bankruptcy of a shipping firm. It was an unfortunate weakness in the system during the first year of operation of the Seaway that permitted two firms to get into arrears with their tolls. We are happy to be able to say that procedures were tightened up and there has been no recurrence of this in subsequent years of operation. The unpaid amounts are covered by the reserve for doubtful accounts and undoubtedly a substantial portion will have to be written off eventually.

Mr. WINCH: What is the procedure on a collection of tolls?

Mr. CAMU: Mr. Chairman, very briefly it is this. When a ship intends to make a transit into the Seaway they file a pre-clearance form and on that pre-clearance form they indicate the name of the vessel, the tonnage, what it is going to carry and so forth; at the same time, there is also a space on the form where they describe the conditions of the vessel, and then another space where they indicate how they are going to pay, if there is a security, the amount of money and everything else. Once the ship has made one full transit, then the company has two periods of 14 days. In the first period, they file a declaration of the exact tonnage, carriage and so forth. It is like a self assessment. They indicate how much, and then they send two cheques, one for the American part of it, the 29 per cent, and a cheque for 71 per cent in Canadian dollars. Our own toll assessment section checks every one of those forms coming in against the cargo declaration. This is what we do with the 8,000 of them throughout the season.

Mr. WINCH: Suppose the captain of a ship makes a declaration and tells you from whom you are to collect; if you do not get the money do you then allow any other ship of the same company to go through until you have received payment on the first one?

Mr. CAMU: No, we do not on that basis.

Mr. WINCH: I mean no other ship of that company can go through if they have not paid on the first ship?

Mr. MARTIN: Mr. Winch, the situation is that every time a ship enters the seaway, it must be covered by a guarantee in our hands before it gets in.

Mr. WINCH: How can it have a guarantee if we have a loss of \$110,000?

Mr. MARTIN: I am talking of the system as it exists today, sir.

Mr. CAMU: The system was not quite fool proof, so to speak.

Mr. WINCH: When it has been in effect you have \$24,000 owing?

Mr. CAMU: Yes, but it was fully covered that year.

Mr. MARTIN: We have the security to cover it.

Mr. BIGG: What do you take, some kind of a bond?

Mr. MARTIN: A banker's guarantee or a government bond.

● (5.45 p.m.)

Mr. LONG: The next item I want to refer you to is on page 16, under the heading of overpaid municipal grants where a reference was made to an amount of \$129,000 which was overpaid to the city of Cornwall over a period of five years owing to a parcel of land being included twice in calculating the grants payable in lieu of taxes. The amount was set up as an accounts receivable by the Authority and negotiations with the city of Cornwall for repayment were commenced.

Mr. BIGG: Does this duplication over a period of five years not suggest a little slackness in the accounting somewhere?

The CHAIRMAN: I would like to ask, if I may, why did the auditor of the Authority not find it? Also, why did the Auditor General's office not find it sooner? I think we have one on the Auditors now.

Mr. LONG: Might I remind you Mr. Chairman, that Mr. Henderson has pointed out many occasions that we can only do a test audit, we cannot look at everything all the time. This may sound like an excuse but it is a fact that we cannot examine all of the transactions each year.

Again, this started because of divided responsibility. This parcel of land was included in land on which the Department of Transport was paying grants in lieu of taxes along with other land, but it was also a parcel that the Authority picked up independent of that. I believe I am right in that?

Mr. MARTIN: Yes. That is the origin of how it started.

The CHAIRMAN: Who found it first?

Mr. MARTIN: Our land agent in Cornwall.

The CHAIRMAN: Your land agent? You are taking the credit for finding it first.

Mr. MARTIN: No, the land agent has nothing to do with me.

Mr. CAMU: It is in the administration branch. It is not in finance and accounting.

The CHAIRMAN: So we cannot give the credit to the Auditor General's office in this case?

Mr. LONG: We have that on the program for next year.

Mr. CAMU: It is a perfectly good debt, is it not? They will set a time on it.

The CHAIRMAN: They will pay it?

Mr. BIGG: It will shove the thing up too high.

Mr. WINCH: It is admitted that there is an over-payment of \$129,000 over a period of five years. What arrangement has been made with Cornwall, either for the collecting of this debt or not paying your own? What have you done with it?

Mr. MARTIN: Firstly, as a consequence of discussion with the city of Cornwall, the amount of overpayment has been reduced from \$129,000 to \$108,000. I am not really too familiar with the details of the adjustment. They found things upon which we should have paid taxes and had not. Then there was a change in some valuations and a change in areas.

Mr. WINCH: What was the situation on the \$108,000?

Mr. MARTIN: The matter is under negotiation with the city. The latest thing that we have is a letter from the city's tax assessor in which he claims that the overpayment was not, in fact, as great as \$109,000. This is a letter from the city dated April 7, 1966, and the assessment commissioner states, "I am trying to locate in the grant schedule the 62.9 acres along the north side of the canal and west of lock 14. I find that the total area for which you show a grant paid, is 32.4 acres." He then suggests that we take another look at it. The matter is now back in the hands of our lands agents who are checking their area measurements and the maps and plans of the areas involved.

The CHAIRMAN: Is that the same gentleman who accepted the overpayment each year?

Mr. MARTIN: This commissioner?

The CHAIRMAN: Yes. He did not raise any objections to getting the overpayment?

Mr. MARTIN: As to the recovery, once the exact amount is determined, we propose to recover it by deducting it in five equal instalments from future grants in lieu of taxes.

Mr. WINCH: How did you decide that the amount of overpayment was \$129,000?

Mr. LONG: I do not think that we decided that, Mr. Winch. I think that was the Authority's calculation.

Mr. NOBLE: Mr. Chairman, what is the legal position on interest on accounts like this which are overpaid? These people have had the money for almost five years.

Mr. MARTIN: I understand that legally we cannot charge them interest back to the time the overpayment started but we have proposed to the city that, during the repayment period, interest will run at five per cent.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, there is no difficulty in connection with this. It will straighten itself out and I propose we go on.

The CHAIRMAN: Yes; it will straighten itself out but we hope it will not happen again.

Mr. WINCH: It is a strange situation.

Mr. Long, is it not unusual to have a payment continue on double taxation for five years and not be turned up by your own auditor? Perhaps I should ask this of the chairman?

Mr. CAMU: By our own internal auditors?

Mr. WINCH: Yes, a double payment for five years and not noticed by your own audit?

Mr. MARTIN: These calculations, Mr. Winch, are quite involved and, as I say, the piece of land did not appear twice in the same record. It appeared once in the records of the Department of Transport and once in our own records.

Mr. WINCH: I am sorry, sir, but there must be a transfer of ownership from the Department of Transport to the Seaway Authority. Are you telling me that the city of Cornwall sent a tax bill to the Department of Transport and to the Seaway Authority on the same piece of land?

Mr. MARTIN: No municipality sent the tax bill. As I understand it, these grants are arranged by negotiation between the crown corporation concerned and the city official.

Mr. WINCH: So you own the land; the Department of Transport thought they owned the land, and both of you were paying for it. Is that right?

Mr. MARTIN: We were paying them both.

Mr. WINCH: You were paying them both?

Mr. MARTIN: Yes.

Mr. WINCH: I am not an auditor but it seems rather strange to me.

Mr. CAMU: In this area in Cornwall there are three types or pieces of land on which we have to pay something. The old Cornwall Canal is one. We are

right on the waterfront for a distance of a few miles. Secondly, we have this land expropriated for an all Canadian seaway one day, and that is another piece of land which we have and on which we pay grants. Thirdly, we have our headquarters right at the corner of the most important intersection, this is a seven-story building on which we pay taxes. We have a parking lot about a block from there for our own employees on which we also pay taxes. So we have these four pieces of land. The total amount of the grants and the taxes are based on that.

Mr. BIGG: Is it possible there is an overlapping of maps or blueprints? You are arguing about whether it is 32 acres or 64 acres. Surely, with a proper survey, you could step in and say it is so many yards long and so many yards wide. Either it is 64 acres or it is not. But I could see that if there is an error in the maps, you could very well pay taxes on a green patch on a city map and then pay taxes on a red patch—

The CHAIRMAN: May we close this matter by having the assurance of the Authority that a survey has been made and there are no other cases that could be in the same category?

Mr. CAMU: That is correct.

The CHAIRMAN: Let us carry on.

Mr. LONG: I think the remaining items that the Committee will be interested in will be found on page 19 under the term "General". There are four items here which are in dispute. The first, in the amount of \$55,146 represents the Victoria Bridge roadways and lift bridge maintenance costs for the period 1960 to 1962. This amount has been billed to the Authority by the Canadian National Railways and has not been paid because of uncertainty as to who was responsible for the operating costs of the railway diversion during those years.

The CHAIRMAN: Is that similar to the other one, Mr. Carvell?

Mr. CARVELL: No, I do not think so, sir. This simply relates to the making of a formal agreement with regard to the division of past responsibility on maintaining approaches to the diversion bridge and so on. We proposed, three or four years ago, to the Canadian National Railways that we formalize the agreement and suggested the basis for the formal agreement. They said that their operational people would be looking at it and we would get together soon. Every six months or year since then their general solicitor writes and apologizes for not having gotten together with us but says that something has happened to their regional people and they cannot get to it. The last time this happened was about two months ago. I do not think there is any issue between us where the responsibility will fall but it is not formalized.

Mr. WINCH: Where are the bills?

Mr. CARVELL: Certain of their costing people wanted to send those out on the basis of an agreement which does not yet exist.

Mr. WINCH: How do they send out bills on an agreement that does not exist. I am sorry, but I just have to ask this now. How do they do it? There is no answer to that one.

Mr. CARVELL: I cannot answer it, Mr. Winch.

The CHAIRMAN: You will likely have a settlement of this before the next Auditor General's report?

Mr. CARVELL: I certainly hope so.

Mr. BIGG: Would it help if we made a formal request that this matter be expedited?

Mr. CARVELL: Yes.

Mr. WINCH: I would think so, Mr. Chairman, because it is most unusual that we have a report to us on a bill unpaid and now we are told, by the legal counsel, that a bill is sent on an agreement that does not exist. To me, that is an impossible situation.

The CHAIRMAN: It is for a period from 1960 to 1962 which is four years old. Right?

Mr. BIGG: I would like to move that some action be taken on this.

The CHAIRMAN: I accept your suggestion but not a motion, at the moment, for legal reasons. We have not a quorum.

Mr. LONG: The second item concerns the responsibility for certain operating and maintenance expenses in connection with the Beauharnois Canal. It is pointed out on page 20 that the canal, which was constructed by the Beauharnois Light, Heat and Power Company, was transferred to the crown in 1932. Under the terms of the 1932 agreement the Company, which has since been taken over by Quebec Hydro-Electric Commission, is responsible for certain operating and maintenance expenses of the canal. In 1959 the canal became part of the St. Lawrence Seaway and maintenance costs incurred by the Authority for the years 1959, 1960 and 1961, have been repaid to the Authority by the Quebec Hydro-Electric Commission. That Commission, however, states that it does not consider that it is responsible for these costs for 1962 and subsequent years because of provincial legislation passed in 1962. The legislation referred to is an act to dissolve Beauharnois Light, Heat and Power Company and pertinent sections of that act are quoted. The difference of opinion continues and presumably will have to be the subject of an agreement between the Government of Canada and the Government of the Province of Québec.

The CHAIRMAN: I accept that as read. Are there any questions?

Mr. LONG: Two other items are referred to but both of these have been settled on a negotiated basis. Therefore, you can regard them as having been cleared.

The CHAIRMAN: Why did you settle with the Ontario Hydro Electric Commission for \$18,000 when the bill was \$40,000? Is there some reason for that?

Mr. MARTIN: It is a little difficult for me to answer but I think I am probably as able as anyone, sir. These were charges, if I understand correctly, which arose during the construction period. If you will recall, Hydro was

engaged in a large construction program along with the Seaway and there were certain things which, on an oral basis, more or less, were agreed. One was, that Hydro would pay certain costs. There was never any record, to my knowledge, of a precise agreement. It dragged on because the engineers of Hydro and the Authority, who were the only people really familiar with the situation, were too busy to get together. When they did get together and discussed the matter, this is what they say they agreed would be an acceptable settlement.

Mr. WINCH: I have one question to ask, Mr. Chairman. I guess I should address this to the Chairman. Is it customary for you, on matters which involves thousands of dollars, to have oral agreements? I am told now this is an oral agreement. On an oral agreement, where you thought the amount was \$40,000, you settled for \$18,000. On matters of this magnitude, do you make a practice of oral agreement?

Mr. CAMU: No, we do not.

Mr. WINCH: This is an exceptional circumstance?

Mr. CAMU: Yes, and a very difficult one because channel sweeping is a very difficult item to assess. That was a follow up of the construction period.

Mr. WINCH: But even then was it recognized that it would be an oral understanding? This is evidence that an oral understanding does not work out.

The CHAIRMAN: I think that is understood, Mr. Winch. It is a good question, and we will finish on this note.

Mr. WINCH: You say it is a good note to finish on. Because it is the first time I have been on a Committee with representatives of the Seaway Authority, may I say I have a far better understanding of the Seaway Authority and its operations now than I ever had before. Mr. Chairman, I would like to express my grateful thanks for the way they answered the questions to give us information.

The CHAIRMAN: Thank you, Mr. Winch. I am happy to relay that on to members of the Authority. It has been a real education to have you with us.

Outside of the one question, which our subcommittee is going to study, I do not suppose we will have you back again until then.

Mr. CAMU: I wish to thank you, Mr. Chairman, and the members of the Committee as well. It was our first appearance and I think you were very fair and kind to us.

The CHAIRMAN: Thank you. On Thursday morning at 9:30 a.m. we will have the 1964 Auditor General's report.

The meeting is adjourned.

5

HOUSE OF COMMONS
First Session—Twenty-seventh Parliament
1966

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS
Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 6

THURSDAY, MAY 12, 1966

Public Accounts, Volumes I, II and III (1964 and 1965)
Follow-Up Report of Auditor General

WITNESSES

Mr. G. R. Long, Assistant Auditor General and Mr. D. A. Smith,
Audit Director.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,	Mr. Leblanc (<i>Laurier</i>),	Mr. Tardif,
Mr. Ballard,	Mr. McLean (<i>Charlotte</i>),	Mr. Thomas (<i>Maison-</i>
Mr. Bigg,	Mr. Morison,	<i>neuve-Rosemont</i>),
Mr. Cameron	Mr. Muir (<i>Lisgar</i>),	Mr. Thomas (<i>Middlesex</i>
(<i>High Park</i>),	Mr. Noble,	<i>West</i>),
Mr. Dionne,	Mr. Racine,	Mr. Tremblay,
Mr. Flemming,	Mr. Schreyer,	Mr. Tucker,
Mr. Forbes,	Mr. Stafford,	Mr. Winch—(24).
Mr. Gendron,		

(Quorum 10)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, May 12, 1966.

(8)

The Standing Committee on Public Accounts met this day at 9.40 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Baldwin, Bigg, Cameron (*High Park*), Dionne, Flemming, Forbes, Gendron, Hales, Leblanc (*Laurier*), Lefebvre, McLean (*Charlotte*), Muir (*Lisgar*), Noble, Schreyer, Tardif, Thomas (*Middlesex-West*), Winch (17).

In attendance: Mr. G. R. Long, Assistant Auditor General of Canada; and Messrs. Smith, Douglas, Rider, Laroche and Buzza of the Auditor General's staff.

At the request of Mr. Baldwin, the Committee agreed to print a Comparison of the Salaries of Certain Senior Officials as an appendix to the Minutes of Proceedings and Evidence of this day. (*See Appendix 2*)

The Committee resumed consideration of the Auditor General's Report for the year ended March 31, 1964.

Mr. Long reviewed paragraphs 81 to 94 inclusive and was questioned thereon.

Paragraphs 81, 84, 85, 86 and 87 were reserved for consideration when the departmental representatives are present.

On a motion of Mr. Baldwin, seconded by Mr. Thomas (*Middlesex West*),

Resolved,—That the recommendation of the Auditor General in paragraph 82 be endorsed as a recommendation of the Committee, viz. that charges for advance planning of construction projects should not be divided between the accounts of two departments.

The Committee also accepted a recommendation from the Assistant Auditor General, in reference to paragraph 92, that information for members of parliament and the general public in the Public Accounts of Canada should list by department and appropriation all amounts remaining unpaid at the year end for any reason whatever.

At 11.00 a.m., the review of the Auditor General's Report for 1964 completed, the Chairman adjourned the meeting until Tuesday, May 17, 1966.

Edouard Thomas,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

THURSDAY, May 12, 1966.

● (9.30 a.m.)

The CHAIRMAN: Gentlemen, we have a quorum. At the close of the last meeting, Mr. Baldwin asked for certain information.

Mr. G. R. LONG (*Assistant Auditor General*): Yes, Mr. Chairman, I have prepared what I think Mr. Baldwin was looking for in so far as salaries of certain senior officials is concerned. I have it here and would be glad to pass it over.

Mr. BALDWIN: Well, I would move, Mr. Chairman, that we print it as an appendix to the day's proceedings, rather than take up the time of the Committee now. I give notice that I intend to bring it up at the appropriate time and discuss this whole issue. But I think that if it is appended to today's transcript we would all have a chance to look at it.

The CHAIRMAN: Do we all agree that it should form part of the appendix? Right.

Mr. BALDWIN: Mr. Chairman, on a point of order before you start generally; I want to bring up the question in connection with exhibit number 5 as furnished by the St. Lawrence Seaway Authority and made available to us. Generally, I want to say that I was well satisfied with the Authority officials; their responsiveness to questions and the way they handled the questions and the matters brought up, but it seems to me that an exhibit of this kind should be filed at the beginning of the proceedings. I asked some questions dealing with this question of toll structure and having in mind what the recommendations were of the Auditor General. I think it is very important. I would suggest that we might call it to their attention and when in future an authority or department is filing these exhibits they would, I hope, be available so that the Committee might have the benefit of reading them before they carry on with their examination. This is a very important document and involves this whole question of toll structures to be dealt with. I just wanted to bring that up so that it might be called to the attention of the Authority.

The CHAIRMAN: I think your point is well taken. I will try to follow that procedure.

Now, our next meeting with the Canada Council is on May 17 and you have had delivered to your rooms the long form report for the years 1965 and 1964 from the Auditor General's office, and you will receive in the mail French or English copies of the Canada Council's 1964 and 1965 report. These will all be in your possession before the next meeting, May 17, so I trust you will spend as much time on them as you can and come prepared to question the witnesses

next Thursday. Is there anything further anyone would like to bring up before we proceed with Mr. Long and the Auditor General's report for 1964?

Mr. Long, page 42 in the 1964 report, we will proceed and I trust we will be able to be as brief as we can and get through this report today. I have page 42, Mr. Muir. That is where we stopped. We will be commencing on the next item 81. So I would ask Mr. Long to be as brief as he can and we will get along with the 1964 report. Mr. Long, item 81.

81. *Cost of plans for administration building for Department of Agriculture.* In 1955 an architect was engaged by the Department of Public Works to prepare plans and specifications for and to supervise the construction of a headquarters building in Ottawa for the Department of Agriculture. From 1957 to 1960 payments totalling \$190,500 were made to the architect for the design phase of his undertaking, representing three-fifths of the full fee of 5 per cent on the originally agreed cost estimate of \$6,350,000. In 1961 the architect was instructed to carry out certain revisions to the existing building plans to meet new requirements. Because extensive revisions were required—which resulted in a new cost estimate of \$10,408,000—it was agreed that the amount to be paid to him could be fairly assessed only on a time and cost basis. Provisionally it was estimated that this might involve an additional amount of \$250,000. By February 1964, however, the architect had claimed costs of \$428,013 with respect to the 1961 revisions of which he was paid \$262,087 prior to March 31, 1964. In August 1964 the Treasury Board approved payment of the balance bringing to \$618,513 the architects remuneration for the design work on the building.

Had no revisions of building plans been involved, the design portion of the full fee relating to the actual contract price of \$9,266,500 as at March 31, 1964 would have amounted to only \$278,000. Construction of the building commenced in October 1963 and is scheduled for completion in April 1966.

Mr. LONG: Paragraph 81 covers the cost of plans for an administration building for the Department of Agriculture. This is a case of architectural design work, expected in the first instance to cost \$278,000, having ultimately cost \$618,513 or \$340,500 more than would have been the case if the architect had not been required to make extensive revisions to his original plans to meet new requirements.

The CHAIRMAN: Any questions?

Mr. THOMAS (*Middlesex West*): How are these architect's fees calculated and on what basis are they paid? By the day, percentage, by the job, how?

Mr. LONG: Well it is percentage, Mr. Thomas, but I will ask Mr. Smith to give you the details.

Mr. D. A. SMITH (*Audit Director*): Normally the amount payable to the architect is based on a percentage of the actual cost of the building. For a building of this nature the current rate is 5½ per cent of the actual cost. Now, three fifths of that fee relates to the design work up to the point where tenders are called. Two fifths of the fee relates to the supervisory work undertaken after the contract is let. That is a general statement, sir. In some cases where a large project is involved the percentage may taper downward at certain points.

Mr. THOMAS (*Middlesex West*): Now, in the case where the planners change their mind, as in this case, and call for extensive revision, then what happens?

Mr. SMITH: In this case the decision was reached that due to the nature of the revisions, the work should be carried out on a cost and material basis. Now, this cost was based on hourly rates in respect of various classes of professional and other employees of the architect. The materials had to do with the small stuff relating to the paper for plans and so on. There were also incidental expenses for travelling, telephone calls and so on.

● (9.45 a.m.)

Mr. MUIR (*Lisgar*): Are we to understand that the \$600,000 is just for the design work and there still is an amount owing in regard to the actual construction of the building?

Mr. LONG: Yes, sir.

Mr. MUIR (*Lisgar*): Where actually that should pay the architect's full fees for building, design and everything, should it not?

Mr. SMITH: If there had not been revisions the amount to which the architect would have been entitled would, in the final analysis, have been 5 per cent of the actual final cost of the building.

Mr. BALDWIN: I thought it was 6½ per cent?

Mr. SMITH: It varies, sir, according to the—

Mr. TARDIF: Size of the building?

Mr. SMITH: No, not necessarily. It varies according to the complexity of the job. Some buildings are more specialized than others, in which event a higher rate may apply.

Mr. BALDWIN: Are you able to say, having in mind your experience and knowledge, that if the person who had engaged the architect for the construction of this building has been private industry rather than government, that individual would have been quite as generous as the government appears to have been in this case?

Mr. SMITH: I am afraid I am not in a position to answer that.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, can you advise the Committee if there is any way in which the Committee can have a check made as to the fairness of these additional fees, that is, in the case of over charge by a doctor you could appeal to the medical association; in the case of an overcharge by a lawyer you could always appeal to the law society. Is there any way in which this Committee can check on the fairness of these fees when they are paid to an architect?

Mr. SMITH: All I can say in that respect, sir, is that in this particular instance the hourly rates paid in respect of the various categories of employees of the architect were the subject of, I understand, quite detailed negotiations between the department and the architect, before they undertook the revisions. The final costs were examined in detail by a unit of the Comptroller of the

Treasury's office. In other words, a cost audit was placed on the architect's claims in this regard.

Mr. THOMAS (*Middlesex West*): Can you tell us what percentage of architectural work is done by government architects and what percentage is contracted out?

Mr. SMITH: No, I cannot answer that question. I do know that when the estimated cost of a project exceeds a certain amount, and I know that has crept up a bit in recent years and I do not know what it is, that usually the architectural work is carried out by practising architects rather than by architects from the Department of Public Works.

Mr. McLEAN (*Charlotte*): Would this include any engineering fees? Sometimes the architect has his own engineers.

Mr. SMITH: There were, I think, three firms engaged by what I will call the prime architect in this case, to do work for him but I am not familiar with the names of these subfirms and I do not know whether engineering work was carried out or not.

Mr. TARDIF: Before a building of this type is designed, or before it is decided upon, I guess a study is made as to what amount of space you are going to need and how it is going to be laid out. What happens to a fellow who makes a \$4 million mistake? Does he get a raise in salary or does he get a promotion or what happens? Or does he get fired as he would in private industry?

Mr. LONG: It is not so much a mistake or overcharges or anything like that. Mr. Smith will correct me if I am wrong, but I think this stems from government policy, government plans changing. As I recall it, the planning of this building started quite some time ago in 1954 or 1955 and this architect started planning this building—

Mr. TARDIF: But the people who decide policy on this, when they are told by the officials that the building will cost \$6.5 million, if they were told at that time that it would cost \$10.5 million they may not have it. They may go in for rental which would be cheaper.

Mr. SMITH: Where extensive changes are made, sir, the decision to make these extensive changes was made at the ministerial level involving three ministers of the crown.

Mr. TARDIF: Yes, but three ministers of the crown did not make these changes without some recommendation from the officials, I am sure.

Mr. MUIR (*Lisgar*): Mr. Chairman, as I understand it, that \$600,000 represents three fifths of what the architect is going to receive. Is that right?

Mr. SMITH: Normally the architect would have received three fifths of his, in this case, 5 per cent commission. I should say that at the time the contract was entered into with this architect, the standard rate was 5 per cent and that is prevailing throughout this contract, although in 1960 the standard rate was raised to 5½ per cent. So normally the architect for his design work would have received 3 per cent of the final cost of the building but due to these revisions, as the note points out, he is receiving a great deal more.

Mr. MUIR (*Lisgar*): The point that I am trying to make is that this final payment will amount to \$1 million because he still has to get two fifths of his 5 per cent. He has received over \$600,000 for the design part; now, he has to get the construction part.

Mr. SMITH: Yes, he will be receiving 2 per cent of the final cost of the building for his supervisory work.

Mr. MUIR (*Lisgar*): In that case he is getting \$1 million in architect's fees on a \$10 million building. I would suggest that that is a little high.

Mr. SMITH: I do not think it will come up to \$1 million. It will be something short of that.

Mr. BIGG: It seems to me a dangerous thing to pay people, I do not know if there is any way around it, architects or anybody else, on a percentage basis. It seems to me it would encourage them to build expensive buildings. I think it would be more sensible to perhaps give them a project and give them a bonus if they kept the thing within the prescribed limits instead of encouraging them to go beyond the budget. I see here that possibly this building was intentionally underestimated to start with in order to get the contract. It could be. It is costing \$16 million instead of \$10 million or instead of \$6 million, is it not? It started at \$6,350,000 and the revisions are going to cost \$10 million; or is that an over-all total?

Mr. SMITH: Up to this point the cost of the building, based on the original contract plus the extras, amounts to \$9,586,000. It is due for completion in the early autumn of this year, I believe.

Mr. BIGG: The principal thing on this cost-plus business is it seems to encourage government departments or the contractors to escalate, as they did with the Arrow aeroplane. It got beyond handling by the Treasury. Is there no way of putting the architects, up for tenders as well? They know how many square feet they can work on in so many hours. It seems to me we could communicate with the contractors and say, "How much will you do the estimating job and blue-printing, and so forth, for a building of this type". That would be more economical, as I see it, instead of saying the more the building costs the more you get. Another thing is that to pay the builders themselves on a hourly basis; the more hours they work, the better. If they had a large crew, could they not extend the work with bad supervision and keep them working all year round when possibly there were delays when they should have laid men off, and so on. If you are going to pay them out of the government payroll according to the number of hours they put on the job, we have no guarantee they are going to be efficient.

The CHAIRMAN: Your point is well taken, Mr. Bigg.

Mr. CAMERON (*High Park*): Mr. Chairman, the report of the Auditor General which we are discussing, states that because extensive revisions were required which resulted in a new cost estimate of \$10,408,000, it was agreed that the amount to be paid to him could only be fairly assessed on a time and cost basis. Is the witness in a position to tell us whether that judgment was fairly exercised or not, or should we not have the officials before us to find out and get to the bottom of it. I think we are just skimming the surface the way

we are doing it now. We do not know what these revisions were; we do not know why that judgment was arrived at. I would question very much whether the Auditor General would go behind the judgment. He is just pointing out the fact that this had happened and it has cost the government that much more money.

The CHAIRMAN: I think, Mr. Cameron, you have made a good suggestion there. There are three others who want to ask questions on this but I wrote on the border of the page "the old story", and I think we will run into similar cases as we go through the 1965 report. I think your suggestion to have the officials from the Department of Public Works appear before the Committee to answer these questions is a good one. If the Committee so wishes, then we will arrange to have the Public Works officials here to answer some of these questions to which, I am sure, you want an answer. Agreed?

Would the other three members be willing to leave their questions until the witness—

Mr. SCHREYER: Mr. Chairman, is the figure of \$618,000 the total fee that was paid to the architect or was there still some owing beyond that? I thought it was the final figure but then your answer to Mr. Muir seems to indicate that there was more to be paid.

Mr. SMITH: This figure of \$618,000 only relates to the design portion of the architect's work. He still has to receive 2 per cent of the actual cost of the building for his supervisory services.

The CHAIRMAN: Mr. Tardif and then Mr. Forbes.

Mr. TARDIF: You estimate this at \$9,266,500 and you say it will not be finished until the fall. Will it be higher than this? Is that a generous estimate or will it cost \$11 million?

Mr. SMITH: This is a definite figure at this point, sir, based on the initial contract price plus certain extras, the need for which came up after the contract was placed. The probability is that there will be further additional extras before the contract is completed.

Mr. TARDIF: So this is only an estimate. It can be higher than that.

Mr. SMITH: Yes, it will be higher undoubtedly, but I doubt whether it will be a great deal higher.

Mr. FORBES: Mr. Chairman, in what year was the construction of this building commenced?

Mr. SMITH: In 1963.

Mr. FORBES: Would part of the problem that we have run into here be due to the change in Ministers of Agriculture? This building represents four ministers. It started in 1954, if I understood you correctly, and continued through 1957, 1958 and 1962 and 1963. So you had four different Ministers of Agriculture involved in the construction of this building. You can readily understand why there should be some changes over the years.

Mr. SMITH: The statement was made that we did not have the details of the revisions here. Actually I have the details of the major changes in somewhat

capsule form. I do not know whether they would be of interest to this Committee or not.

The CHAIRMAN: I think that possibly it would be of interest if we are going to question the witnesses when they come. I think we should have a little groundwork and do a little homework on it first and if they are in capsule form, I think maybe we should hear them. What is the wish of the Committee? Agreed.

Mr. SMITH: First, an agricultural library was to be incorporated in the building plans. Second, an additional floor to the centre block to accommodate agricultural offices and compensate in part for the library addition. Third, a data processing section. To provide for this the east wing was to be expanded to provide requirements for this unit. Fourth, an underground garage and Emergency Measures Organization fall-out shelter was to be added as a separate unit external to the building. And finally, fenestration treatment. That is the buildings were to be re-designed to provide for effective sun shading.

Mr. MUIR (*Lisgar*): Do you have the final figure on the cost of the building?

Mr. SMITH: Up to this point, sir. It will not be finished until early autumn of this year.

Mr. MUIR (*Lisgar*): I see. What is your figure up to now? About \$12 million?

Mr. SMITH: No, \$9,586,000.

Mr. MUIR: They should be able to get away under another \$3 million, I would imagine.

Mr. SMITH: No, it will not approach that figure, sir.

● (10.00 a.m.)

Mr. TARDIF: Mr. Chairman, those things that were mentioned by you are things that should not have been forgotten. A library for a building of that type would be the normal thing; and a garage is not something that comes up all of a sudden either. There have been automobiles around for quite a while now. If private industry ever did a thing like this somebody would get fired for sure.

Mr. NOBLE: Mr. Chairman, I was just making a rough estimate. The way I see this thing is that the architect has already been paid \$618,000. Is that right? The building is now going to cost approximately \$9 million. So allowing 2 per cent of \$9 million, it is going to be over \$800,000. Is this the approximate figure?

Mr. SMITH: The architect will be in receipt of an amount between \$800,000 and \$900,000.

The CHAIRMAN: Well, gentlemen, we will have the Public Works officials here. We will make note of Section 81 and we will add to that any other sections that are pertinent to Public Works administration and when they are here we will try and cover them all at the same time.

Mr. BALDWIN: Mr. Chairman, may I make one suggestion so that we might have the whole story before us. Do you think it would be advisable to ask the Public Works to give us a letter that could be made available beforehand setting out their picture; otherwise we will only get it in small instalments. Our examination would be much more fitted to the facts if we had their story first.

The CHAIRMAN: Pertaining to this particular matter?

Mr. BALDWIN: The whole deal, yes. They will no doubt read what was said today. They will know what we are interested in.

Mr. LONG: We will be glad to draw that to their attention.

The CHAIRMAN: Item 82. That is in the 1964 report. It does not appear in 1965.

82. *Accounting for advance planning of construction projects.* In 1954 the Department of Public Works initiated an appropriation in its Estimates, "To provide for advance planning of projects including acquisition of sites". The purpose was to avoid the necessity of listing items in the Estimates before planning had commenced or land had been acquired. Like provision was made in the Estimates of succeeding years, including the year under review. Although the revised form of the Estimates for the 1964-65 fiscal year has resulted in the elimination of a separate appropriation for the purpose, provision for advance planning appears in the Details relating to several of the Department's construction votes.

In 1957 the Treasury Board agreed that the Advance Planning vote could be used for the planning of construction projects which were to be charged to the appropriations of other departments. The Board emphasized, however, that in such circumstances charges to the Advance Planning vote were to be regarded as advances, to be recovered from the other departments as soon as convenient in the same fiscal year; otherwise, construction costs for which other departments were responsible would be divided between their accounts and those of the Department of Public Works. The Board reiterated this position in subsequent years.

In 1963 the Department of Public Works recommended to the Treasury Board that any charges to the Advance Planning vote in connection with other departments' construction projects be permitted to remain as final charges to that vote, thus eliminating the reimbursement features required by the Treasury Board. Although no relaxation of the requirement has come to our attention, the Advance Planning vote for 1963-64 remained charged with architects' fees, legal costs, etc., of \$15,844 in connection with the planning for a building, the construction of which will be the financial responsibility of the Department of Forestry. No reimbursement was sought from that Department. The situation is drawn to attention because, in our opinion, it remains undesirable for the costs of a project to be divided between the accounts of two departments.

Mr. LONG: Paragraph 82, *Accounting for advance planning of construction projects.* This note gives details of how architects' fees, legal expenses et cetera, in connection with a new building for which the Department of Forestry was financially responsible, were allowed to remain charged to the Department of Public Works. We believe the Committee will concur in our view that it is most desirable that all of the cost of each building project should be charged in the right place; not divided between the accounts of two departments. Such accuracy is imperative if final cost records are to be regarded as accurately reflecting the total cost. Perhaps the Committee would formally record its agreement with this view.

The CHAIRMAN: Any comments?

Mr. THOMAS (*Middlesex West*): Is now the time to go on record as approving this suggestion? I would move, Mr. Chairman, that the Committee go on record as endorsing the recommendations of the Auditor General in this regard to Item 82.

The CHAIRMAN: Mr. Baldwin? All agreed?

Motion carried.

The CHAIRMAN: Item 83.

83. *Damage to Coast Guard vessel.* On August 8, 1963, in what was described as "fine clear weather with excellent visibility", a Canadian Coast Guard ship of the Department of Transport ran aground in the St. Lawrence River while en route from Trois Rivières to Quebec. Damages which cost \$147,671 to repair were sustained. The departmental investigation that followed indicated that there were no extenuating circumstances and that the officer in charge of the vessel at the time of the accident was solely responsible.

The case was submitted to the Department of Justice and the opinion was given that the accident was mainly attributable to the negligence, major in character, of the officer in charge. He was assessed the maximum penalty of \$250 pursuant to the Claims Regulations and transferred to another position.

The foregoing is an example of losses borne by the Crown under its policy of acting as its own insurer. In order that Parliament may be more completely informed, such losses should be summarized or otherwise recorded in the Public Accounts.

Mr. LONG: Paragraph 83, Damage to Coast Guard vessel. This note describes the damage to public property which cost \$147,000 to repair. The officer in charge and responsible for the accident was assessed the maximum penalty of \$250 pursuant to the claims regulations and transferred to another position.

Mr. TARDIF: At the same salary?

Mr. LONG: I do not believe so, Mr. Tardif.

As the members will appreciate, this is a type of loss faced by the crown in its policy of acting as its own insurer. As it seemed to the Auditor General important to keep track of all costs of this type borne by the crown, he suggested to the subcommittee on the form and contents of the public accounts which had been convened by this Committee in 1964, that particulars of all such losses henceforth might usefully be shown each year in the public accounts. The subcommittee made a recommendation along these lines to the main Committee which duly adopted it among the recommendations contained in its Ninth Report, 1965, to the House. The Comptroller of the Treasury implemented this and in a directive issued on June 24 he stated, and I quote:

It has been agreed that only individual losses in excess of \$1,000 need be listed, grouped as to category or type of asset. Losses incurred in the defence of Canada, peace-keeping duties and war exercises or training need not be reported.

That is the end of the quotation. The losses in 1964 and 1965 determined in this way as resulting from the crown acting as its own insurer, amounted to \$1,384,508, as is shown on page 45.3, volume II of the 1964-65 public accounts.

The CHAIRMAN: The Auditor General is recommending that in order that Parliament may be more completely informed, such losses should be summarized or otherwise recorded in the public accounts.

Mr. LONG: This recommendation was made by the Committee, has been accepted and, in fact, the schedule appears in the 1965 public accounts.

The CHAIRMAN: A good suggestion. Mr. Flemming.

Mr. LONG: The recommendation with regard to the reporting of losses has been implemented.

Mr. FLEMMING: Could we have the number of the page?

The CHAIRMAN: Page 45.3, public accounts, volume II. Turn it up to the page and we will show you where it is.

Mr. LONG: Unless members are interested in the particular case involved here there is no other point, of course.

The CHAIRMAN: Item 84.

84. *Financial consequence of faulty ship design.* In 1961 a firm of naval architects was engaged by the Department of Transport to prepare plans and specifications required for the construction of a weather ship for the Pacific coast.

After a contract for the construction of the vessel had been awarded in August 1963 at an estimated cost of \$9,915,000, the contractor informed the Department that his checking of the weight estimates inherent in the design indicated a miscalculation by the architects of about 750 tons, which would have an adverse effect on stability and displacement to the extent that structural changes would be necessary. The Department confirmed that serious errors in calculation had been made and considered ways and means of overcoming the differential in stability. As a result a number of structural changes were provided for, including the comparatively costly use of aluminum in lieu of steel in the superstructure.

The firm of naval architects has received \$117,000 representing full payment in accordance with the terms of the engagement entered into with the Department in 1961. Although construction of the weather ship will not be completed until 1966, the Department expects that the structural changes involved will increase the cost of the vessel by at least \$500,000.

Mr. LONG: Paragraph 84, Financial consequence of faulty ship design. In connection with this non-productive cost the Auditor General asked why payment had been made to the naval architects responsible for making these serious errors in calculation, and whether the department did not have legal recourse against them. In March 1965, the circumstances were submitted to the Department of Justice by the department and the Department of Justice advised that on the basis of the material studied there is evidence to indicate that the naval architect responsible for the design of the vessel, failed to exercise the skill and competence of an ordinary competent practitioner in naval architecture in that (a) he erred in calculating the light weight of the vessel; (b) he failed to consider, during the designing of the vessel, the effective changes and amendments in the specifications and drawings made by the department on the

basic design and stability of the vessel, and (c) he failed to advise the department of the effect of the modifications and amendments referred to.

No further action has been taken by the department towards seeking any redress from the naval architects concerned.

Mr. TARDIF: Mr. Chairman, what must an architect do so that the government will not pay him for a job that he has not done properly?

Mr. LONG: I think perhaps he would have to incur the government in some loss and then he would perhaps actually be taken to—

Mr. TARDIF: This fellow did pretty well in trying to incur the government in some loss if the changes were up to the tune of \$500,000.

Mr. LONG: There is some other information that is rather complicated on this. There is a feeling, I believe, in the department that had they had proper design, the ship that would have resulted would have cost more than this ship cost plus the changes due to the architect's mistake. But this, of course, leaves the question which perhaps is unanswerable, would they not have a less satisfactory ship under those circumstances?

Mr. TARDIF: As a matter of fact it proves that what they said was right; if they had followed the original plan the ship would have cost more. It is all right to say that now, but was \$117,000 the total amount paid this fellow?

Mr. LONG: Yes.

Mr. TARDIF: He should be building buildings for the Department of Agriculture, it would pay him better.

Mr. MUIR (*Lisgar*): There is only one thing that can be said about this that had they entered into a suit with the man, they would probably have paid it out to the lawyers anyway, so they are just as well to settle the thing and forget about it.

Mr. CAMERON (*High Park*): I was just thinking about what Mr. Muir was saying and wondering if Mr. Baldwin was going to let it pass unchallenged.

The CHAIRMAN: I would like to ask one or two questions here if I may. They engaged a firm of naval architects. I would like to know who they were and had they had previous jobs with the department.

Mr. TARDIF: When you have the answer to that, Mr. Chairman, how many jobs have they had since?

Mr. LONG: Mr. Chairman, on this point I can say that there are not many firms of naval architects. This firm has had work since and, I believe, work before. We have never felt that it was up to us to disclose names. We have them; if the Committee wants them to be disclosed we are at the service of the Committee but I do not think the Auditor General would like to take the responsibility of making the names of people public which might cause them embarrassment. If the Committee wishes them, we have them and I am prepared to—

Mr. TARDIF: It might be a good idea, Mr. Chairman, to get to know the names and recommend to the government that in future they hire people that know how to do their jobs. You say that they have had jobs since.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, there is one point that we should not lose sight of here and that is that until we hear both sides of these stories we should not cause people trouble by mentioning names. These things look bad on the face of them; it looks as if architects maybe are getting too large a share out of our economy. I am inclined to think they are on general principles, but at the same time I do not think that until we have the other side of the story, their side of the story, we should start anything which might cause the public to think that we are on a witch hunt here, and I do not think that we should cause people to think that maybe architects are unfair, unless there is some reason for taking legal action.

Mr. TARDIF: I do not think this should be entered into the records without being corrected. Nobody thinks that architects as a group are unfair but we think that this fellow made a major mistake and we think if he is not qualified I do not think we should give him any more work because a representative of the Auditor General said that in this case he made a mistake and miscalculations when changes were made. That only applies to him; it does not apply to the other architects.

The CHAIRMAN: Gentlemen, as a Committee we are appointed to look into the ways in which the public funds are expended. We have cases like this brought to our attention where it shows extravagance and waste, and I think it is up to this Committee to correct it and report to Parliament about it. We have a very glaring case here which I think should be investigated thoroughly by this Committee. I am in your hands.

Mr. BALDWIN: I listened with some interest to the statement that the officials of the Department of Justice had made an examination and had come to a certain conclusion which was read out which, in my opinion, and I am giving this free of charge, Mr. Muir, would permit action to be taken. This was an allegation of professional incompetence as I read it. I believe that some time we will have the officials of the Department of Justice with us on some matter—there are one or two that I can think of—I wonder if we could, at that time, discuss with them their reasons for coming to this conclusion and why they did not recommend that action be taken. It is probably in the hands of the Department of Justice people and I think we should now make our next inquiry. I would suggest that we might defer further action until then but not let this go at all.

The CHAIRMAN: Just before we leave the point, I understood Mr. Long to say that this firm of naval architects have had other jobs since this one.

Mr. SMITH: Yes, that is correct. As a result of this incident, I understand that the department is exercising much closer supervision over the work of these architects and the amount of work which they have actually received since this incident came to light has not been great.

Mr. TARDIF: Perhaps it has actually cost the government more money because we re-hired them and have to have extra staff to watch them. We are paying them to go to college.

Mr. LEBLANC (*Laurier*): Most professional firms, whatever their business, have what we call an insurance of errors and omissions. I am just wondering if

that insurance was carried by that particular architect and secondly, if it was brought into the picture when the settlement was made with them.

Mr. LONG: Mr. Leblanc, I do not believe there was any settlement with the architect. No action was taken to try and recover from him and I believe—really the department would give this explanation—that the reason was there was some doubt whether they could claim that costs had been incurred exceeding those which might have been incurred had proper plans and a proper ship been built in the first place. But that leaves out the fact that they would probably have a less satisfactory ship for the money spent.

● (10.15 a.m.)

Mr. TARDIF: This is no answer to it at all that they probably would have a worse ship. You know when they want to justify themselves for paying a fellow for doing a poor job; they are just finding excuses, I do not agree with that.

Mr. BALDWIN: We might have to build another ship or ultimately redesign this one to do the job for which it was originally designed. I think all of these are things which we have to look at and I suppose the Department of Justice people and the Department of Transport would know the answers.

Mr. LEFEBVRE: Perhaps we should recommend that the firm of naval architects be bypassed and we deal directly with the architects who are in the employ of the contractor. They are the ones who found the mistake; our own department did not. Maybe we could bypass and deal only with one person directly. Would you like to have somebody from the Department of Transport and somebody from the Department of Justice before us on the matter?

Mr. LONG: I might mention one problem in this case. Mr. Smith has just reminded me there are only two firms of naval architects in Canada—two major firms.

Mr. BALDWIN: Obviously it requires specialized knowledge.

Mr. TARDIF: But if there are only two firms in Canada and they are unable to do the job properly, then would it not be possible for us to consult naval architects in other parts of the world? Communication is pretty fast now.

Mr. NOBLE: Mr. Chairman, if the major companies make these kinds of mistakes why do you not give the minor firms a chance?

The CHAIRMAN: Well, this certainly should be investigated further.

Mr. THOMAS (*Middlesex West*): Do we understand, Mr. Chairman, that an order of the Committee now will be issued for representatives of the Transport Department and of the Justice Department to appear before the Committee, and we will investigate this further?

The CHAIRMAN: That is right.

85. *Repairs and alterations to Canadian Coast Guard ships.* For many years the Department of Transport has experienced difficulty in complying strictly with the requirements of the Government Contracts Regulations in respect of repairs to units of the departmental Coast Guard fleet. Because there is no way of determining before a ship is placed in the hands of a ship repairer and

opened up for examination, what the extent of repair costs is likely to be, the problem of estimating on a reasonably accurate basis and securing the necessary Treasury Board approval before the work is undertaken has been a continuing one.

A case observed during the year under review serves to illustrate the problem. In April 1963 the Treasury Board approved of entry into a contract for the annual refit repairs of a vessel at the lowest tender price of \$43,346 and at the same time authorized further expenditure of up to \$35,500 to cover any additional repairs which might be found necessary subsequent to the commencement of the work. Additional work of the type for which the \$35,500 was intended to provide was carried out at a cost of \$57,994 and the opportunity was taken to have certain alterations and additions to accommodation carried out at a cost of \$29,511. Consequently, although the ship repairer had commenced operations under a contract involving a consideration of \$43,346, the total cost of the work performed before the ship returned to service in June 1963 was \$130,851. As the original Treasury Board authority, including the contingency allowance of \$35,500, had been exceeded by \$52,005, it was necessary for the Department to make a further submission to the Board covering this amount so that the contractor could be paid. The submission was not made until November 1963. The *ex post facto* approval of the Board was received in the following month and the contractor was paid the amount of \$87,505 by which total costs exceeded the contract price.

Mr. LONG: Paragraph 85—Repairs and alterations to Canadian Coast Guard ships. This note points out a problem which has existed for many years in connection with strict compliance with the requirements of the government contract regulations in respect of repairs to Canadian coast guard ships. The procedure that has been followed has been to invite tenders for known requirements and subsequently to negotiate prices with the successful tenderer for additional repairs later found necessary.

In seeking Treasury Board authority to enter into a ship repair contract, the Department usually includes an amount for contingencies on the basis of past experience. However, not infrequently it happens that the amount estimated for contingencies is not sufficient to cover the additional cost. This situation becomes apparent only after the ship is in the shipyard and has been opened up for inspection with some of the repair work actually under way or perhaps already completed. At this stage it is not regarded as feasible to call for tenders for additional repairs because in the event that another firm is the low tenderer it will be necessary to close up the ship and make it seaworthy for removal to the yards of the other firm.

Consequently, to avoid undue delay in getting vessels back into service, the procedure is followed of authorizing the contractor to proceed with the additional work with price negotiation to follow. The result is that in some cases the work has been substantially completed before agreement has been reached on the cost and a submission can be made to the Treasury Board for additional authority. By the time this has been received the ship may be back in service and the firm involved is demanding payment. This problem is a continuing one and there is always the danger that a shipyard might deliberately submit too

low a bid on the work originally specified in order to obtain the contract, with the expectation that any loss suffered as a result can be recouped in the profit on extras.

Might we suggest that the Committee give consideration to recommending that, in addition to all other methods which the Department might be able to employ in controlling the cost of extras, such contracts provide that when extras are involved they shall be undertaken on a cost plus or a modified cost plus basis, the profit to be limited to the percentage of profit realized on the original contract price, with the entire contract subject to cost audit by government auditors. I might say this is a suggestion which we have not explored with the Department; we feel that they may have reasons why they think it would not work, but obviously there is a problem here and it is well to explore any way that this problem might be overcome.

Mr. TARDIF: Mr. Chairman, I think this is a real problem too and I do not doubt that your solution might help considerably. I do not know that the contractors would agree to a formula such as you submit. But one thing is sure and that is that an employee of the Department, if he wanted to favour one firm, knowing that there is considerably more to be repaired than appears on the specification, would say to him "Well, if you bid lower you will get it anyhow." Then if they bid on extras on the repairing of a ship when it is open in their own shipyard I presume the price is considerably higher than it was originally.

I do not think your formula would be accepted but it would be a great improvement, I am sure.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, would not the same officials whom we will be examining in connection with Item No. 84 be involved also in Item No. 85?

The CHAIRMAN: Yes.

Mr. THOMAS (*Middlesex West*): Well, then could we just defer this until we have a chance to examine the officials? I would so move.

Mr. LEFEBVRE: I have been adding up a few of these figures in Item No. 85. We have an amount of \$43,346 plus \$35,500, which amounts to \$78,846; they found further necessary repairs for \$23,494, and unauthorized alterations for the amount of \$29,511 making a total of \$130,851. I think what we should be concerned with here would be the amount of \$29,511, which were not repairs but alterations. What we have to find out is who authorized these alterations. The repairs, I believe, were necessary; these are things that you run into no matter what you are repairing, whether it be a motor car, a truck, a tractor, anything. It is the alterations I think we should look into here, that amount only.

Mr. LONG: Even on the repairs, Mr. Lefebvre, you do not have the benefit of the tender system, you are a captive customer at that stage.

Mr. LEFEBVRE: That is a little bit different do you not think, Mr. Long, from erecting a building or anything else. When you take something apart you never know what you are going to run into.

Mr. LONG: This is quite true.

Mr. LEFEBVRE: That is why I say it is something similar to bringing your car into a garage and asking for advice; you never know how it is going to end up, because until you take the motor apart you do not know what the heck is wrong with it. I think this would probably bear out this \$22,000, but not the \$29,000, for the alterations.

The CHAIRMAN: I think when the officials are here they will give a report.

Mr. LEFEBVRE: Yes.

The CHAIRMAN: Item No. 86—Contracts for cleaning of public premises.

86. *Contracts for cleaning of public premises.* During the past decade there has been a marked increase in the number of contracts entered into for the cleaning and caretaking of Crown-owned or leased premises and in the number of firms competing for such contracts. The business has become highly competitive and recent experience of the Department of Public Works, which administers many such contracts, has been that when tenders are called prices quoted in the majority of cases have been lower than under expiring contracts. Departmental policy has been to contract for a period of two years.

The Department of Transport also is a party to a number of like contracts and its practice has been to invite tenders for the cleaning of airport terminal buildings at two or three year intervals. This Department has also experienced lower prices in recent years which have been attributed in part to adjustments of specifications.

An exception to the general policy of the Department of Transport was observed during the year under review. In November 1963 the Department informed the Treasury Board that the contract for the cleaning of the terminal building at the airport at Windsor, Ontario, which had been for a term of three years, was due to expire. The Department recommended that the existing contract be extended for a further two year period at an annual cost of \$26,675 compared with the previous rate of \$27,000 per annum. However, the Board, which had earlier commented on the competition prevalent in the building cleaning industry, initially declined to approve of the recommendation and directed that tenders be called. In the interim another firm experienced in airport cleaning requirements expressed interest in the Windsor undertaking and informed the Department that if there were an opportunity to tender, its bid would likely be at the rate of about \$21,600 per annum. Despite this, the Treasury Board was again approached to authorize an extension to the existing contract at the amended rate of \$26,675 per annum and in January 1964 the Board assented. There will be the same officials I guess, Public Works, but there may be some questions you would like to ask beforehand. Excuse me, Transport officials.

Mr. LONG: This is a straight case of an existing contract being renewed for \$26,675 per annum, when the departmental records disclose that another experienced firm advised that if given the opportunity to tender its bid would probably be at the rate of about \$21,600 per annum, a saving of \$5,000 per annum.

Mr. TARDIF: Is the other firm that would quote us a lower price recognized as being as efficient? Because there is cleaning and cleaning, as you know.

Mr. LONG: I believe so.

The CHAIRMAN: Would the question here not be why were tenders not called?

Mr. LONG: That is true; that is the question. The contract was renewed without calling tenders.

Mr. TARDIF: Are these tenders, Mr. Chairman, normally for two years?

Mr. SMITH: With the Department of Transport it varies; it may be either two or three years.

The CHAIRMAN: In this case had they not expired?

Mr. SMITH: At this point a three-year contract had expired and the contract was placed for an additional two years, which expired late in 1965.

Mr. BIGG: In some cases some of these cleaning outfits are very expensive. There are special garbage disposal units, and so on, which come to quite a considerable expense, and I think there must be some discretion used here not to force a man to go out of business and get rid of all this expensive equipment when he has been doing an efficient job. Perhaps the two-year contract is not long enough in the first place, especially on a renewal. If a man has done a good job for a department for two years I think he should be allowed to perhaps contract again. As I said, some of this equipment is expensive and I think they should have a contract for a longer period of time, perhaps on a renewal contract, say for five years. Some of this stuff is expensive and I know the cost of the garbage disposal trucks at Cold Lake airport, for instance runs into thousands of dollars. I refer to the equipment to put on a truck, and it is absolutely useless for any other purpose of the entrepreneur.

Mr. MUIR (*Lisgar*): As I understand it, sir, the Treasury Board is not required to approve anything under \$25,000; is that right? Only items of \$25,000 and over are approved by Treasury, the rest the department would not have to submit to the Treasury.

Mr. SMITH: It depends, sir, on whether tenders had been called and at least two tenders have been received; otherwise the Treasury Board have to be brought into the picture at the \$15,000 level.

Mr. MUIR (*Lisgar*): The reason I asked that is that if the other company submitted a figure of \$21,600 there would have to be two tenders; otherwise Treasury would have to approve it anyway; is that right?

Mr. SMITH: This \$21,600 was not a tender; it was just a letter to the department. In the event that this firm had an opportunity to tender its price would be in the neighbourhood of \$21,600 per annum.

Mr. TARDIF: Well was that not after the contract had been let?

Mr. SMITH: No.

Mr. TARDIF: Did the letter come before the contract had been let or before?

Mr. SMITH: It was prior to the renewal of the contract.

Mr. TARDIF: Mr. Bigg spoke of special equipment for garbage removal in building cleaning. It is not a normal thing for building cleaning and garbage removal to be under the same heading; they are two different things altogether.

Mr. BIGG: We were talking about building—

Mr. TARDIF: Building cleaning.

Mr. SCHREYER: Well, Mr. Chairman, this resolves itself into the question why were tenders not called? I do not see how anyone here could attempt to answer that. It would seem that in this case too we should be asking some of the officials of the Department about this.

The CHAIRMAN: When officials from the Department of Transport are here we will ask them why tenders were not called.

Mr. TARDIF: I would suggest that in the future they do.

The CHAIRMAN: Item No. 87.

87. *Federal contribution to cost of ferry vessel.* After studies had been made of the need for extended water transportation services between the south and north shores of the St. Lawrence river in the Rimouski and Baie Comeau area, a recommendation was made to the Treasury Board in February 1961 for approval in principle of financial assistance for construction and operation of a ferry between Rimouski and Baie Comeau. The construction cost was estimated at \$4,500,000 of which 40 per cent, or \$1,800,000, would have been paid by way of a construction subsidy together with an operating subsidy of \$600,000 in the first year, to be reduced to nil by the end of ten years.

Before a decision was reached on this recommendation, a ten-year-old United States-owned ferry boat which had become redundant on completion of a bridge over the Straits of Mackinac was offered for sale. Subsequently the Department of Transport received a request for a capital subsidy from a company which proposed to acquire this vessel for the purpose of operating a ferry service between Baie Comeau and Point-au-Père. In August 1961 the Treasury Board gave approval in principle to the granting of a subsidy, but in doing so emphasized that it considered a service of this nature to be primarily a provincial responsibility. The Board was prepared to make an exception in this particular case, however, because it was "in hand and under active consideration before the Board recommended to Cabinet a report on federal assistance to ferry and coastal services under the principles of which intra-provincial ferry services that are essentially highway links—chiefly services involving roll-on/roll-off ferries—are considered to be a matter of provincial responsibility".

In October 1961 the Treasury Board granted formal approval of a capital subsidy in a lump sum to a maximum of \$1.5 million, based on the aggregate of the actual cost of purchase, an amount to cover necessary repairs and alterations, certain furnishings and possibly customs and related charges. The company proceeded to purchase the vessel and to renovate it, at a total cost of \$2,429,800, including \$863,650 for customs duties and sales tax. An additional special duty assessment of \$1,727,300, representing 50 per cent of the valuation of \$3,454,600 established by the Department of National Revenue for customs purposes, was levied but remitted by the Governor in Council in December 1961.

under authority of section 22 of the Financial Administration Act. By January 1962, when an agreement relating to the subsidy was entered into by the Canadian Maritime Commission and the company, the Treasury Board had decided that the subsidy of \$1.5 million should be on the basis of five equal annual instalments of \$300,000 without interest rather than a lump sum, and this condition was embodied in the agreement. This course of action was decided upon by the Board "so that the federal contribution would match the provincial undertaking to pay an operating subsidy during the first five years of the operation of this vessel." We have been informed that the provincial assistance takes the form of a subsidy which covers the previous year's operating deficit up to a maximum of \$50,000.

Because payment of the capital subsidy was to be spread over a five year period, and since the equity of the owners in the enterprise was comparatively small (a balance sheet of the company at September 30, 1963 showed paid-up capital of \$180,100), the company was obliged to borrow heavily and in consequence incurred interest charges which led to a difficult financial situation. Following representations by the company, the Treasury Board agreed to a total subsidy payment of \$600,000 during the fiscal year 1962-63, the additional \$300,000 to be in lieu of the final payment otherwise payable in January 1966.

Representations continued to be made by the company and in December 1963 it announced its intention to suspend operations of the vessel early in 1964 for the uneconomic winter season, claiming that its financial position prevented it from maintaining an uninterrupted service. This proposed step precipitated further consideration of the company's requests and the outcome was that in March 1964, by which time \$1,200,000 of the total subsidy of \$1.5 million had been paid, Executive approval of a full subsidy of \$2,363,650 was given, the balance of \$1,163,650 to be paid from funds provided specifically for the purpose in Supplementary Estimates for 1963-64 for Steamship Subventions for Coastal Services. The amount was clearly based on the final subsidy instalment of \$300,000 otherwise due in January 1965 plus the amount of \$863,650 paid in respect of customs duties and sales tax at the time that the ship was acquired. As the customs duty and sales tax had already been paid by the company, the additional payment of \$863,650 was in reality a refund of the duties paid instead of a remission. If it had been treated as a remission it would have been subject to the requirements of section 22 of the Financial Administration Act and in consequence the nature of this element of the subsidy would have been recorded in the Public Accounts in accordance with subsection (8) of section 22.

The payment of the subsidy was made conditional on the company retaining ownership of the vessel and operating it in the performance of the ferry service for a five year period commencing on January 2, 1962 and not making any application for transfer of registry of the vessel out of Canadian registry during the same period, unless with the prior consent of the Canadian Maritime Commission. Otherwise, the company is obligated to repay the full subsidy with interest. When the agreement relating to the subsidy was entered into by the Maritime Commission and the company in January 1962, the company was required to provide security for the performance of all its terms and conditions in the form of a second mortgage on the ship, which was subject to a first

mortgage in the amount of \$900,000. The secondary nature of the security is recorded in the agreement relating to the subsidy and mention of such agreement is made in the mortgage instrument. With the \$300,000 balance remaining out of the original subsidy of \$1.5 million, together with the additional subsidy of \$863,650, the company refinanced its mortgage indebtedness whereupon the Crown mortgage was rated as a first mortgage. However, in order that a new first mortgage for \$350,000 could be registered as such, the Crown mortgage was discharged and replaced by a new second mortgage which was registered on August 14, 1964. The security held by the Crown covering its total capital subsidy of \$2,363,650 is therefore still subject to a first mortgage, now in the amount of \$350,000, given with respect to other indebtedness of the company.

This is a 1964 item and it is quite a long one.

Mr. LONG: Paragraph 87—Federal contribution to cost of ferry vessel. The circumstances described in this rather lengthy note show how a company with a paid-up capital of only \$130,100, according to its balance sheet of September 30, 1963, was supplied with various forms of federal assistance exceeding \$4 million for the purpose of establishing a roll-on/roll-off car and passenger ferry service between Point-au-Père and Baie Comeau. It should be noted that the company threatened to suspend operations of the vessel because of its financial position, and the government then agreed to pay an additional subsidy. It should also be noted that although the amount advanced by way of subsidy was substantial the government on two occasions accepted a second mortgage as security, thus permitting the company to give a first mortgage as security for outside loans. This may be another note where the Committee will wish to question witnesses from the Department of Transport.

Mr. THOMAS (*Middlesex West*): I so move.

The CHAIRMAN: All right. Item No. 88.

88. *Defalcation at Gander International Airport.* During the year under review the closing out of a bank imprest account which had been maintained by the Department of Transport at Gander International Airport for the purpose of making local disbursements led to the discovery that revenues accruing to the Crown had been misappropriated during the period March 1951 to June 1963 to the extent of \$42,800. The defalcation was concealed in the earlier years by altering duplicate deposit slips and utilizing subsequent collections to cover amounts previously misappropriated. Such methods eventually became unwieldy and the bank imprest account was resorted to as a source from which funds to cover the shortage were obtained. This was possible only because of a breakdown in the normal procedures for the operation of a governmental bank account.

The internal audit procedures of the Department have since been reviewed and supplemented to include additional tests of bank transactions which in our opinion should result in the early detection of any misappropriation of this type. The Audit Office work programs in respect of activities of a like nature to those at Gander have also been appraised to ensure that they are reasonable and adequate in the circumstances.

A charge has been laid against the departmental employee involved in the case. The amount of the loss which has been charged to the Public Officers Guarantee Account appears in the Statement of Losses (Public Accounts, page 43.29).

Mr. LONG: Paragraph 88—Defalcation at Gander International Airport—

Mr. BIGG: This is coming up for review.

The CHAIRMAN: It must be in 1965. Well, we just had 87 and we are going to have the Department of Transport people here. Now No. 88.

Mr. LONG: This note describes the manner in which a defalcation involving a misappropriation of \$42,800 was perpetrated at Gander International Airport. We understand that the criminal charge laid against the departmental employee involved was dismissed in December, 1964.

● (10.30 a.m.)

We also understand that the Department is now considering civil court action. I think you will have some questions on this one.

Mr. TARDIF: This chap you say was dismissed?

Mr. LONG: Yes, he was dismissed.

Mr. TARDIF: From the way they treat other people who make mistakes he was very roughly treated, was he not?

The CHAIRMAN: Are there any other questions?

I would like to ask a question here. It was 12 years from 1951 to 1963 before this was noticed and my first question would be why did it take so long to find it and, secondly, are these books audited by the Auditor General?

Mr. LONG: Well, Mr. Chairman, this was the type of defalcation which involved collusion. Our office does not and cannot visit these outlying offices very frequently. I believe we did have in this period one visit to this office and this matter did not come to our attention. Departmental auditors similarly were fooled by this system—I would mention one sentence here—"this was possible only because of a breakdown in the normal procedures for the operation of the government bank account." In other words, people in the bank were involved and I believe people in the bank were fired over this; but this assisted the man to cover up what he was doing.

Mr. TARDIF: What was this \$42,000 defaulted from—what kind of an account was it?

Mr. LONG: Well there were revenues coming in which he was kiting—he did not deposit them promptly.

Mr. TARDIF: What kind of revenues, may I ask, Mr. Chairman?

Mr. SMITH: At an airport there are various types of revenue. As has been said landing fees would be prominent; there would be rentals of hangar space, rentals of accommodation in the terminal building to various air lines, and so on.

Mr. TARDIF: Well, would most of the accounts not be paid by cheque? If so, how would an employee be able to cash these cheques, or get the difference if he entered only half of the value?

Mr. SMITH: I do not think that cheques were taken, sir. My understanding is that round sums in cash were taken, fairly frequently.

Mr. TARDIF: Is it the practice of some of these large air lines to pay some of these bills in cash?

Mr. SMITH: No, but there are itinerant aircraft which do pay in cash.

Mr. LONG: There are also other cash funds around that a smart person can manipulate sometimes.

Mr. TARDIF: Well \$42,000 is quite a manipulation.

Mr. LONG: Well this is an accumulation over the years; it was not all one amount.

Mr. NOBLE: Mr. Chairman, was any attempt made to get restitution from this party?

Mr. LONG: Yes, a criminal charge was laid and dismissed.

Mr. NOBLE: You did not collect any money. He apparently had a defence.

Mr. LONG: The Department is now considering a civil action; they told the man "Show us where the money went or we will take action". So far as we know, he has not yet shown them what happened to it. He contends he did not take any money; nevertheless the money is missing.

Mr. MUIR (*Lisgar*): He must, obviously, have been splitting it with some of the bank employees to get away with this sort of thing so he would not probably end up with so much. If he was splitting it with a couple of bank employees they would probably end up with about \$12,000 or \$15,000 each.

Mr. LONG: I do not think there is any evidence of that, Mr. Muir.

Mr. MUIR (*Lisgar*): Well I wondered how there was collusion with the bank employees if he was not giving them some money.

Mr. LONG: Collusion by perhaps giving him drafts to send to his headquarters with his revenue report before he actually deposited the money; he would cover the drafts out of subsequent revenue.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, I wonder if Mr. Long could explain how this public officers guarantee account works.

Mr. LONG: The public officers guarantee account is there to save appropriations from loss of funds and also revenues from loss of funds. In its early stages—it really operated in place of a fidelity bond on people handling money—the departments had to formally put their people under bond and pay a percentage of their salary, into the account. However, this involved a lot of work. A number of years ago the account was established with a bulk amount of money and recovery is now made from the account when losses are established. The Financial Administration Act requires that all losses be reported in the public accounts, and if you study those reports each year you will see that the loss occurs, recoveries are made, and then you see the balance eventually charged to the public officers guarantee account.

Mr. THOMAS (*Middlesex West*): What officers are included under this fund and how are their premiums paid?

Mr. LONG: As I was saying, there are now no premiums. The account was put in money and it stands there. Everyone is included—every public servant who might defect with any money would be covered by the account.

Mr. THOMAS (*Middlesex West*): That is the same thing, then, as the government carrying its own fire insurance.

Mr. LONG: Precisely. It does enable the full revenue to be reported eventually. Theoretically, it enables charges to appropriations for defalcations to be eliminated but in practice, of course, the charge to the fund often falls a year or two years after it happens, so the year that the defalcation took place does—

Mr. THOMAS (*Middlesex West*): Actually, then, there are no premiums paid; this is really a bookkeeping matter? The federal government pays its own losses through defalcation and they are charged against general revenue, but there are actually no premiums paid into this account.

Mr. LONG: That is right. The advantage of this is that the losses are all brought to one point. You can see them.

Mr. THOMAS (*Middlesex West*): You can say, then, that all these would be balanced by simply appropriating some general revenue to cover the losses.

Mr. LONG: There has been just one appropriation in recent years and when the fund runs down—I am not sure of the amount in it now, but it would be in public accounts—and more funds are needed Parliament will be asked to provide an additional amount of money for it.

Mr. BIGG: Have any steps been taken to stop these cash deals? Say a man paid a landing fee in cash and this never got into the right channels. Have any steps been taken to stop this happening? I might make a suggestion—if it has not been done—that the traffic and the collecting be divorced. In other words, the fellow who books the plane in and out again does not have to collect the fee from the owner of the plane, he gives them some kind of a ticket and this goes through another office where they keep a separate account and then they have to tally at the end of a very short space of time.

Mr. LONG: I do not think there is any question but that the Department tightened up its procedures in so far as they could in that regard.

Mr. SCHREYER: I have two questions. First, does the guarantee account cover all crown corporation employees such as departmental people?

Mr. LONG: It does not cover all crown corporations. I think I could say it does not cover crown corporations; it covers departmental people.

Mr. SCHREYER: It does not cover any of the crown corporations?

Mr. LONG: I do not think so. I had better check that to make sure—I may be wrong; I had better get that information for you.

The CHAIRMAN: Thank you, Mr. Long. I think our position as a Committee is what can we do to see that these things do not happen again. The internal audit must have been lax in this case. What sort of a set-up would they have at a place like Gander for an internal audit; would they have a local auditor do the books; would the Department have their own auditor, or what?

Mr. SMITH: Well, I will have to distinguish between internal checks on the job, that is, a division of labour, to provide against the possibility of this sort of thing happening, it obviously was weak. The internal audit is something else, departmental auditors go out from Ottawa and, in the past at this particular location, the people from the comptroller's audit services branch have been in the picture. These were slip-ups all along the line.

Mr. SCHREYER: Well I believe I heard you say, sir, that charges were laid and then subsequently dropped or dismissed. Can you tell us the gist of the grounds for dismissal—was it failure of proof?

Mr. SMITH: No; I do know that in advance of the trial doubts were entertained on whether a conviction would be obtained. First of all, it had to be proved that the money had been stolen and, secondly, that this particular individual had stolen it.

Mr. LONG: This is a very confused case of kiting. You might say "well we did not get this particular payment" but he might show where that particular cheque had in fact been deposited at another time in place of another one.

Mr. FLEMMING: I have just one brief question. I take it that the local magistrate dismissed the criminal charge. It was not dismissed just by the Department?

Mr. SMITH: If I understand you, sir, are you asking whether any consideration was given—

Mr. FLEMMING: The man in question naturally would go before the magistrate, would he not? And I assume that the magistrate dismissed the charge; that was my point.

Mr. SMITH: Well, the case went before a judge and jury and the jury found the individual charged not guilty.

Mr. FLEMMING: Oh, I see; thank you.

Mr. MUIR (*Lisgar*): This involves situations where cash is handled, I imagine. This is the only place where you would run into a situation like this, where an employee is paid in cash by whomever the user is. Even in a situation as Mr. Bigg suggested, where he gets a ticket and pays someone else, there could be collusion, but there would be less chance of collusion.

Mr. LONG: Undoubtedly the existence of cash was a contributory factor here, but it is almost impossible, particularly in a place like Gander, to eliminate all cash. They have to have cash for making certain cash payments themselves. I am not sure, I have never been there, but I would guess they perhaps have eating facilities there which would have to handle cash.

Mr. BIGG: The party who lands there obviously cannot deal in cheques all the time. If somebody flies in and lands he has to pay and if you do not take his cheque, well, he is gone; so they insist on cash in many of these places.

The CHAIRMAN: May we close this item off with perhaps a word from Mr. Long, or the Department, that they are satisfied that this has brought to their attention possibilities that can exist throughout all the airports of the crown, and has their audit system been revised or improvements made so that this will not happen again. I think this is what we are interested in.

Mr. LONG: I do not think there is any question, Mr. Chairman, that the department has tightened up, and certainly we are always very embarrassed when a thing like this happens and we try to foresee these things. Our programs are always under review.

The CHAIRMAN: We have just a couple of items more and when we finish those we will be through for tonight.

Item No. 92 on page 50.

92. *Unpaid accounts carried forward to new fiscal year.* Four instances were noted in which appropriations for 1963-64 were insufficient to meet accounts coming in course of payment in that year. In each instance Parliament had been asked for supplementary appropriations and these were granted by means of Supplementary Estimates (E)—the final supplementary estimates of the year. However, the appropriations requested were substantially less than the amounts required for payment of the accounts coming in course of payment at the end of the year. The departments concerned are:

1. DEPARTMENT OF NATIONAL DEFENCE.—Included in the 1963-64 Supplementary Estimates (E) was an amount of \$13,653,000 (Vote 35e) for Operation and Maintenance, Royal Canadian Air Force. This amount was substantially short of the amount actually required and accounts amounting to more than \$12 million had to be carried forward and paid out of funds appropriated for the year 1964-65.
2. DEPARTMENT OF MINES AND TECHNICAL SURVEYS (Dominion Coal Board).—Although the 1963-64 Supplementary Estimates (E) included an additional amount of \$3,914,600 (Vote 140e) for payments in connection with movements of coal, this proved to be substantially short of the amount required to meet claims that came in course of payment to the close of the fiscal year. The result was that claims amounting to \$2,380,000 had to be carried forward to the fiscal year 1964-65.
3. DEPARTMENT OF FINANCE.—The 1963-64 Supplementary Estimates (E) included an additional amount of \$2,800,000 (Vote 45e) for payment of municipal grants. This amount was insufficient to cover the remaining grants which were approved for payment in the fiscal year 1963-64 and grants totalling \$806,503 had to be carried forward for payment in 1964-65.
4. DEPARTMENT OF NATIONAL HEALTH AND WELFARE.—Included in the 1963-64 Supplementary Estimates (E) was an amount of \$2,000,000 (Vote 25e) for the payment of hospital construction grants to the Provinces and Territories. This amount was insufficient to meet the remaining claims in the year under review, and claims totalling \$458,000 had to be carried forward and paid out of funds appropriated for the year 1964-65.

Another charge properly applicable to the fiscal year under review but which has been carried forward as part of the current assets item "Departmental working capital advances and revolving funds" is a balance of \$2,555,000, included in "Agricultural Commodities Stabilization Account" balance of \$63,954,000 (see paragraph 97). This is the amount by which the \$122,235,000

provided by Appropriation Act, No. 2, 1964, Department of Agriculture Vote 172e, the final supplementary estimates of the year, fell short of meeting the loss of \$124,790,000 (exclusive of administrative costs and the estimated cost of major services provided without charge by government departments) experienced by the Agricultural Stabilization Board during the year under review (see also paragraph 163).

Mr. LONG: Paragraph 92 deals with unpaid accounts carried forward to the new fiscal year. This note lists four instances where appropriations for 1963-64 were insufficient to meet accounts coming in course of payment in that year. The payment of such bills cannot be made if it would result in expenditures being made in excess of available appropriations. However, difficulties in estimating requirements could well be a factor in these cases. Nevertheless the incurring of such obligations are tantamount to the overspending of appropriations and therefore cannot be dismissed lightly.

Would it not be informative to members of Parliament and to the public if the public accounts of Canada were to include a listing by department and appropriation of all amounts remaining unpaid at the year end for any reason whatever. The Committee might wish to consider this with a view to making a recommendation if they feel this would be helpful.

● (10.45 a.m.)

Mr. MUIR (*Lisgar*): Mr. Chairman, I think the Committee should recommend that this be done.

Mr. THOMAS (*Middlesex West*): Should we not have some idea of what work would be involved; should it not be discussed with some of the departments or could Mr. Long give us an idea?

Mr. LONG: Well the way in which such information would be obtained would be by watching payments by the paying officers in the early months of the next year, say in the first two or three months of the year, the paying officers would have to watch and record these items. This is where we are able to pick up the items we report. As with everything else we cannot do everything in detail; we do not have enough staff.

Mr. THOMAS (*Middlesex West*): But your staff would be required to do this, covering all the departments of government.

Mr. LONG: I would not think that in the individual departments it would amount to any more than a fraction of a person's time. I do not think it would be impossible.

Mr. THOMAS (*Middlesex West*): If it can be done as readily as that I certainly would endorse the suggestion.

The CHAIRMAN: Your point is well taken, Mr. Thomas.

Mr. LONG: I do not know whether members of the Committee have ever wondered how it is that you never see an overpayment in an appropriation. It is something to operate an organization the size of the government of Canada and always be able to keep the expenditure within the appropriation. This is how it is done, the accounts simply are not paid.

Mr. TARDIF: When you say appropriation do you mean expenditure?

Mr. LONG: Parliamentary appropriations.

Mr. THOMAS (*Middlesex West*): Well is there not a certain amount—what you are suggesting, Mr. Long, is that at the end of the fiscal year there is a certain amount of juggling of dates of payments in order to keep within the appropriation.

Mr. LONG: Well the account just cannot be paid if there is not money available in the appropriation, apart from any juggling.

Mr. THOMAS (*Middlesex West*): Is it not the practice that before they come to the 30th of April they go out and spend the money that they have left so that they will not be cut the next year and they can demand a 10 per cent increase. Is that not the practice?

Mr. LONG: Any spending like that would have to be before the 31st of March? They cannot pay anything in April, whether it be goods or services, that was not delivered in March.

Mr. TARDIF: That is the practice, I can assure you.

Mr. McLEAN (*Charlotte*): What you are proposing is the same as a company, to have accrued charges and prepaid charges? You have accrued charges there at the end of the year.

Mr. LONG: Yes, except that I have not suggested here that this be put on the balance sheet. I suppose the next step would be that you could put it on the balance sheet.

Mr. McLEAN (*Charlotte*): It is standard practice in a company for accrued charges and prepaid charges to be on the balance sheet.

Mr. BIGG: It is extremely difficult to estimate the costs of maintenance on the airports in Canada. In a winter of heavy snow alone the costs of snow removal would be enormous. You could not guess it within two millions I do not think.

Mr. LONG: There are supplementary estimates, of course, quite late in the year.

Mr. BIGG: Yes, I know.

Mr. THOMAS (*Middlesex West*): Could we not, Mr. Chairman, defer a decision on this matter, or defer this for consideration at the time we are writing our report?

The CHAIRMAN: Yes. The same matter will be discussed in 1965. I think there will be other cases.

No. 93.

93. *Losses reported in the Public Accounts.* Section 98 of the Financial Administration Act directs that "every payment out of the Public Officers Guarantee Account and the amount of every loss suffered by Her Majesty by reason of defalcations or other fraudulent acts or omissions of a public officer, together with a statement of the circumstances, shall be reported annually in the Public Accounts".

The statements of losses included in the Public Accounts for 1963-64 were examined and it was ascertained that every loss during the year, which had been observed in the audit as being of a nature requiring to be reported in the Public Accounts in accordance with the foregoing direction, had been included in the listings. Losses in departments other than the Post Office numbered 21 and amounted to \$81,364. Of these, 8 involving \$3,448 were recovered in full during the year, and partial recoveries of \$23,330 were obtained in other cases.

During the year the attention of the Treasury Board was directed to the fact that the total of \$168,263 shown as outstanding at March 31, 1963 in the "Summary" of losses (1962-63 Public Accounts, page 37.14) contained 38 balances dating back as far as 1952-53 on which final action by way of adjustment, recovery, or charge to the Public Officers Guarantee Account had not been reported. Of these, 14 balances have been reviewed and further action is being reported in the 1963-64 Public Accounts involving a net reduction of \$11,691 in the amount outstanding.

Losses suffered by the Post Office Department in 1963-64 numbered 138 and amounted to \$91,735. Of these, 161 to a total of \$53,526 were recovered in full and partial recoveries totalled \$14,021.

Mr. LONG: Paragraph 93, losses reported in the public accounts. This paragraph makes reference to the statement of losses included in the public accounts for 1963-64, and is set forth in this manner in accordance with the requirements of the Financial Administration Act. A similar reference is made in paragraph 141 of our 1965 report.

There is really nothing that the members of the Committee can do with this particular paragraph, unless we wanted to give attention to the statement of losses which appears in the public accounts.

The CHAIRMAN: We may do that in the 1965 report.

No. 94.

94. *Non-productive payments.* In its Fifth Report 1961 the Public Accounts Committee requested the Auditor General to include in his future annual Reports to the House of Commons a listing of the non-productive payments which might have come to his notice in the course of his audit.

After considering the listings of these non-productive payments which were included in the 1962 Report and in Appendix 1 of the 1963 Report, the Committee expressed concern at the increasing number which were being noted. It requested that the Auditor General continue to include listings in his annual Reports of all non-productive payments coming to his notice in the course of his audit.

In accordance with this request, a listing is given as Appendix 2 to this Report of the payments that, in the absence of a precise definition, might be regarded as non-productive in character which were observed in the course of the audit of expenditures for the fiscal year 1963-64. It will be noted that there are 35 items listed in this appendix which compares with 37 items listed in the previous year's Report.

The listing given in Appendix 2 does not detail non-productive payments noted in the course of our examination of the accounts of Crown corporations.

Details of these will be found in the individual paragraphs in the Crown corporations' section of this Report.

Mr. LONG: Paragraph 94, non-productive payments. In accordance with the request of the public accounts Committee a listing was given in appendix 2 of the 1964 report of the payments which, in the absence of a precise definition, might be regarded as non-productive in character which were observed in the course of the audit for the fiscal year 1963-64.

There are 35 of these items and members will be interested to note that they pertain to the several departments as follows: Department of Public Works, 19, involving \$509,000; Department of National Defence, 8, involving \$484,000; Department of Veterans Affairs, 2, involving \$133,000; Department of Transport, 2, involving \$85,000; Department of Northern Affairs and National Resources, 2, involving \$30,000; Unemployment Insurance Commission, 1, involving \$4,500, and National Gallery of Canada, 1, involving \$1,900.

Now, I am in the hands of the Committee here; if it is your wish I will be glad to run through these 35 items quickly, giving a brief description of what is involved in each case.

The CHAIRMAN: Gentlemen, on page 168 at the back of your 1964 report which you are using, you will see the list of the non-productive payments. Now we have about seven minutes left; perhaps we could run through these briefly.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, I wonder if Mr. Long could enlarge a bit on the definition of non-productive payments. This is a new one on me and since I am a new member of the Committee perhaps he would overlook my ignorance.

Mr. LONG: Mr. Thomas, I wish I could define for you what a non-productive payment is. I do not think the Committee has a clear definition in mind. The Committee was trying to get at payments for which we did not seem to receive any value; that is, any useful value. In trying to select these things it is an awful job and we argue back and forth among ourselves whether this should really be called non-productive or is there a reason for it.

Now these are payments that we feel were of no benefit to Canada. But that is not to say that in all cases a service was not rendered.

Mr. THOMAS (*Middlesex West*): Is it also called money down the drain?

Mr. LONG: Yes, I think that is a good expression for it.

Mr. TARDIF: Mr. Chairman—

The CHAIRMAN: Just a minute, will you Mr. Tardif? Mr. Lefebvre and then Mr. Tardif.

Mr. LEFEBVRE: Mr. Long, speaking about these losses, has anybody ever figured out the percentage of the total amount of money in Canada which is handled by government of Canada employees? I think if we look at it in this way we would find it is very, very small.

Mr. LONG: I agree.

Mr. LEFEBVRE: I would say smaller than in any business.

Mr. LONG: I do not know whether I would go along completely with that, because I do not think we—

Mr. LEFEBVRE: Is there a figure on this?

Mr. LONG: There never has been a figure developed on it. We could strike a percentage for you of the total of these in the year; they amounted to \$2,089,000, but you would have a very very small percentage figure if you set that up against the total government expenditures.

Mr. LEFEBVRE: That is what I mean. I would say that generally speaking the employees of various government departments are either very honest or the checks are very good. We are not losing that much money when we compare it with the total amount of money handled. Would that be correct?

Mr. LONG: Comparing it that way it is not a large amount. I do not think that this necessarily means that all of these are payments which you might call a necessary evil that must take place.

Mr. TARDIF: Well, as a matter of fact, I do not think any of them should take place. It is not based on a percentage; it is based on the fact of whether the material delivered to the government is right or not right. For instance, I am looking at one now—magnetron cables—item 4. There were 432 units delivered and 430 units failed. They had an original contract for 630 units. Because 430 units failed without exception, apparently, they decided they were not going to take the rest and they paid for them. Nobody pays for things that do not work, normally, if it is not according to specification. I do not know what the excuse is for paying for this when the units that were delivered failed.

Mr. LONG: Well, apparently the specifications provided to the manufacturer had something to do with it.

Mr. TARDIF: That could be if the specifications were not right. What happened to the fellow that wrote the specifications?

Mr. McLEAN (*Charlotte*): Well, non-productive payments—you take a contractor who has a penalty clause and it may run into hundreds of thousands of dollars, that would be a non-productive payment. Still, it is regarded in business as being all right. If he does not finish his contract he has a penalty clause and every day he goes over he has to pay so much; it is non-productive but that is good business.

Mr. TARDIF: Of course you can enforce the penalty clause only if you also have a bonus clause. You cannot have one without the other.

The CHAIRMAN: Well gentlemen, we will have an opportunity to come back to the discussion. We have completed the 1964 report. We have been fortunate enough to have all our meetings in this room and they will all continue to be held at eleven o'clock in the morning; they will be on Tuesdays and Thursdays, excepting the holiday week end of May 24, when we have scheduled one for Wednesday of that week at 9.30 instead of the Tuesday meeting of that week.

Is there anything further?

We will now adjourn.

A COMPARISON OF THE SALARIES OF CERTAIN SENIOR OFFICIALS

Date	Salaries set by Statute				Salaries set by Order in Council				Civil Service Salaries	
	The Chief Justice of Canada	The President of the Exchequer Court of Canada	Clerk of the Privy Council and Secretary to the Cabinet	Auditor General of Canada	Deputy Minister of Finance	Under-Secretary of State for External Affairs	Director, Bureau of Organization and Secretary to the Treasury Board	President Canadian Broadcasting Corporation	Assistant Auditor General	Audit Director
Jan. 18, 1924				15,000					5,100	4,200
Mar. 31, 1924	15,000	10,000	6,000		10,000	8,000			6,000	4,320
Mar. 31, 1944	15,000	10,000	9,000		12,000	10,000	6,300	15,000		
Nov. 15, 1945										
Jan. 1, 1947	20,000	13,333	15,000		17,500	15,000	7,500		6,300	4,680
Mar. 31, 1947										
Dec. 10, 1949	25,000	16,000								
June 30, 1951										
Dec. 10, 1949										
July 1, 1952								17,500		
July 1, 1954				20,000						
July 1, 1954										
July 1, 1954										
Mar. 31, 1955										
July 11, 1955										
July 11, 1955										
Mar. 31, 1957										
Mar. 31, 1958										
Mar. 31, 1959										
Mar. 31, 1961										
Mar. 31, 1962										
July 1, 1963										
Aug. 1, 1963	35,000	25,000	22,000		24,000	22,000	18,300		19,000	17,000
Dec. 1, 1963				25,000						
July 1, 1965										
Dec. 1, 1965										
July 1, 1966										

NOTES

- 1. Titles are those currently in use no attempt having been made to indicate changes in titles or duties.
- 2. Salaries shown as at March 31 in any year are as recorded in the Public Accounts. Other dates are the effective date of the salary.
- 3. Civil Service salaries are shown at the maximum of the salary range.

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OF
PROCEEDINGS AND EVIDENCE

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LÉON-J. RAYMOND,
The Clerk of the House.

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HOUSE OF COMMONS
First Session—Twenty-seventh Parliament
1966

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 7

TUESDAY, MAY 17, 1966

Financial Statements of The Canada Council 1963-64 and 1964-65.
Reports of Auditor General thereon.

WITNESSES:

Mr. G. R. Long, Assistant Auditor General of Canada; Mr. J. Martineau, President, The Canada Council; Messrs. N. Leblanc, J. Boucher. P. Dwyer. D. H. Fullerton of The Canada Council.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,	Mr. Leblanc (<i>Laurier</i>),	Mr. Tardif,
Mr. Ballard,	Mr. McLean (<i>Charlotte</i>),	Mr. Thomas (<i>Maison-</i>
Mr. Bigg,	Mr. Morison,	<i>neuve-Rosemont</i>),
Mr. Cameron	Mr. Muir (<i>Lisgar</i>),	Mr. Thomas (<i>Middlesex</i>
(<i>High Park</i>),	Mr. Noble,	<i>West</i>),
Mr. Dionne,	Mr. Racine,	Mr. Tremblay,
Mr. Flemming,	Mr. Schreyer,	Mr. Tucker,
Mr. Forbes,	Mr. Stafford,	Mr. Winch—(24).
Mr. Gendron,		

(Quorum 10)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, May 17, 1966.

(9)

The Standing Committee on Public Accounts met this day at 11.07 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs, Baldwin, Bigg, Cameron (*High Park*), Dionne, Flemming, Forbes, Gendron, Hales, Leblanc (*Laurier*), Lefebvre, Muir (*Lisgar*), Noble, Schreyer, Tardif, Thomas (*Maisonneuve-Rosemont*), Thomas (*Middlesex West*), Tucker, Winch (18).

In attendance: Mr. G. R. Long, Assistant Auditor General; Messrs. Smith and Laroche of the Auditor Generals' staff; Mr. Jean Martineau, President, The Canada Council; and Messrs. Mackenzie, LeBlanc, Bartlett, Boucher, Dwyer, Fortier, Fullerton, Pelletier, and Miss Breen of the Canada Council.

On a motion of Mr. Tucker, seconded by Mr. Noble, the Committee agreed to table the following exhibits:

Exhibit VI—Auditor General's Report to the Chairman and Members on the examination of the accounts and financial statements for the year ended March 31, 1964. (Referred to as Auditor General Long Form).

Exhibit VII—Auditor General's Report to the Chairman and Members on the examination of the accounts and financial statement for the year ended March 31, 1965. (Also referred to as Auditor General Long Form).

Exhibit VIII—The Canada Council Annual Report 1963-64.

Exhibit IX—The Canada Council Eighth Annual Report 1964-65.

The Chairman introduced Mr. Martineau, President of the Canada Council, who introduced the other representatives of the Council in turn.

Following the questioning of Mr. Martineau on his initial statement on the activities of the Canada Council, the Committee turned its attention to the 1963-64 and 1964-65 Auditor General's Long Forms.

At 1.00 p.m., the questioning of Mr. Long and the Canada Council representatives completed, the Chairman cancelled the scheduled afternoon sitting and adjourned the meeting to the call of the Chair.

EDOUARD THOMAS,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, May 17, 1966.

● (11.05 a.m.)

The CHAIRMAN: We have a quorum, gentlemen. Thank you for being so prompt. This morning, before we proceed with the Canada Council, I would like a member of the Committee to move that the following be tabled as exhibits: the Canada Council Auditor General's long form report for 1964 and the same report for 1965; the Canada Council Annual Report for 1963-64 and the Annual Report for 1964-65. Would someone so move?

Mr. TUCKER: I so move.

Mr. NOBLE: I second the motion.

Motion agreed to.

The CHAIRMAN: The procedure this morning, gentlemen, would, I think, work to perfection if we follow this routine. We will ask Mr. M. J. Martineau, the Chairman of Canada Council, first of all to introduce the members of the Council he has with him this morning, and other people as well. And then we would ask him, if he would, to give us a brief outline of the Council and its work. And then we will accept questions from the Committee on the general outline of the work of the Council. Then we would call on Mr. Long to go over the 1964 Auditor General's report and the 1965 Auditor General's report.

Before calling on Mr. Martineau, I would ask the members of the Council to move forward and take the seats along the edge of the table so that, when they are speaking, they will be in front of a microphone. We would ask each person to talk into the microphone as it assists those doing the translation.

To our own members, I might remind you that all these microphones are live and if you carry on a conversation it does two things—it interrupts the work of the Committee and it also records what you are saying. Some of it you may not wish to be heard, so beware.

Mr. Martineau, will you introduce the people you have brought with you?

(Translation)

Mr. M. J. MARTINEAU (*Chairman, Canada Council*): Yes, Mr. Chairman. Before that, may I say, gentlemen, how very pleased we are to be here to-day. We were so well received last year that the questions you asked a year and a half ago helped us to understand the part we had to play so very well that we were really anxious to come, and we hope to be able to answer all your questions.

Now, may I introduce those who are with me. To my immediate right is Miss L. Breen, our Secretary-Treasurer; Mr. J. Boucher, our Director; Mr. P. Dwyer, our Associate Director; Mr. N. LeBlanc, Dean of the Faculty of Social

Sciences at Laval University, and Dr. C. J. MacKenzie, whom everybody knows, as he is a great Canadian. In addition, we have Mr. Pelletier, who looks after the scholarships; Mr. Fortier, who is our finance man and then Mr. Fullerton, who is our financial adviser. They will be ready to answer anything you wish to ask them.

May I add also, that the members of the Council are most grateful to you for what you did for the Council at the last Parliament. You voted a large sum of money to us and, while doing so, you unanimously expressed some very kind words towards us. We are very thankful to you and you may be sure that we will do our very best to satisfy you this year and in the years to come.

Now, I have been asked to explain to you the work of the Council. I think that Mr. Boucher, who is Director-General, can do it in fewer words than I and I would ask him to just express his views.

Mr. J. BOUCHER (*Director-General, Canada Council*): Mr. Chairman, I have been with the Council only a year, but I think, in a very brief statement, perhaps I should say that the Council has two main areas of concern. On the one arm, the creative and performing arts—the Council fosters the growth of the arts in this country—and, on the other, the encouragement of the scholarly work being done in Canada, the humanities and the social sciences.

It pursues these objectives through, on the one hand scholarships and fellowships given to individuals and, on the other, through grants given either to art organizations or to groups of scholars or individual scholars engaged in research.

I think this is really the broad delineation of the functions of the Council.

The CHAIRMAN: Are there any questions on the general outline of work of the Council?

Mr. FORBES: The Dauphin district is putting on a Ukrainian Festival. This is developing the arts in many lines, even to the art of colouring Easter eggs. We have made application to the Canada Council for some assistance in this but, apparently, we were not eligible. I would like to know what category you put us into, since we are not eligible for some assistance from the Canada Council.

Mr. P. DWYER (*Associate Director, Canada Council*): May I ask the hon. member if this was a project for the Centennial?

Mr. FORBES: It is to be used as such. They are putting it on this year as a preliminary and it is to be carried on through to the Centennial next year.

Mr. DWYER: I think perhaps the simplest explanation would be that we are primarily concerned in the field of the arts, in festivals and so on, in maintaining what is already here, and that the Centennial commissioners undertake the responsibility for what is being done in that year. In the following year it may be that we would be able to help you but we do not have the funds, at the moment, to take part directly in this Centennial.

Mr. FORBES: Why not give us some funds this year so that we could get in some practice for next year?

The CHAIRMAN: Are there any other questions?

Mr. MUIR: What assistance do you give people in the sports field, such as the Olympics? Do you donate anything to our hockey team or our other athletes who take part in the Olympics?

Mr. DWYER: No, we do not.

Mr. MUIR: Have you ever been asked for that sort of thing?

Mr. MARTINEAU: Well, I think this would be outside our jurisdiction because it would hardly come under the heading of social sciences or the humanities.

Mr. MUIR: But do you not consider that that type of thing is part of our arts, even though not part of the social sciences?

Mr. MARTINEAU: Well, it is certainly part of education as a whole, but I do not think you can say that it is part of the humanities. We have never been asked and we have received no requests of any kind. I believe that, in law, if we did receive one, we would have to turn it down, according to our charter.

The CHAIRMAN: Mr. Muir, I think your assistance would come from the Amateur Sports and Physical Fitness Committee, and the Department of Health and Welfare would make loans for what you mention.

Mr. WINCH: Mr. Chairman, I wonder if, as a broad picture, someone on the Council could give us the general criteria on which they base who gets what and how much, in scholarships and grants? Because I have often wondered, when I see who gets certain scholarships and the amount they get, how you work this out. The same thing also applies to your grants.

Mr. BOUCHER: Perhaps I should start by saying that, at the beginning of any year, we would set aside a certain amount for a certain competition with regard to our anticipations of the claims that would be put on our total funds. The competition would be announced, applications would be filed and the fundamental principle is that adjudication is based on the recommendation of committees which are made up of the peers of the applicants.

In the field of the arts, the applications are assessed by established artists in this country; in the humanities and social sciences they are being assessed by established colleges. These committees are generally composed of five people, where some representation is being taken into account of the broad regions of the country and the various disciplines involved. And it is on the basis of these recommendations that awards are made. So that, eventually, the assessment is made by the peers of the applicants, taking into account generally, and almost exclusively, I would say, the merit of the application, in their own view. And the Council follows, as closely as it can, the recommendations of those experts who are its consultants.

Mr. WINCH: For example, let us take Vancouver. Now Vancouver, I think, is trying to do a good job, which is reflected in their symphony orchestra and, in the summertime, in drama. On what basis would you decide the help you are going to give and whose recommendations would you take? Do applications have to be made for a certain amount and then you decide how much they are going to get? Just how do you operate it as, for example, in Vancouver, which undertakes some very expensive operations in the field of art, culture and drama?

Mr. DWYER: Every year, well before the beginning of the season, in the case of performing arts organizations, the organization will make an application to us as, for instance, the Vancouver symphony orchestra has just done. We assess its requirements; we examine at the same time the requirements of other orchestras in the country and we allot the money, if possible, which the orchestra requires. If it has to be less, then we allot as much as can possibly be given.

This is done in Vancouver. For instance to the Vancouver symphony orchestra, to the Vancouver playhouse, to the Vancouver international festival, to the Vancouver art gallery and also to the orchestra in Victoria, across the straits.

In every case the amount of money is based upon the general level of performance and operation, the public which it reaches and, where possible, its need.

Mr. WINCH: Can I just ask one more question on that now? In considering what your decision is going to be, do you study their past financial statement, do you study their estimate for the year, do you consider their financial standing? Is that all done before you reach your decision?

Mr. DWYER: Each orchestra sends in a complete financial statements of its past year's operations. If its financial year comes a little late, it will estimate its financial statement. It sets out a complete budget for its operations; it describes to us what it is going to do and this is examined in our offices very carefully to see that the audience is being maintained, that, where possible, the province and the municipality are helping, and that the fund raising is staying at a reasonable level.

● (11.20 a.m.)

All these are taken into account. At the same time we, from time to time, send out experts in the field of music to listen to the orchestra, to see how it is developing. They talk to the conductor, and so on.

Mr. WINCH: Do you also consider starting something new or bringing something back? For example, I think that the outdoor theatre in the Malcolm bowl in Vancouver was becoming almost—at least in North America—famous, yet it had to die because of lack of funds. Is that the sort of thing that you could perhaps consider if there was a reconsideration if the re-opening of such a theatre?

Mr. DWYER: This is the Theatre Under the Stars?

Mr. WINCH: Yes.

Mr. DWYER: Yes certainly, we would consider that. The only question there, is whether or not the kind of productions which it has been doing in the past could be self-supporting on a commercial basis. But I gather that, owing to the vagaries of the weather, this has not been possible.

Mr. SCHREYER: Mr. Chairman, I note that in the Canada Council scholarship and fellowship program, application approval runs at only 30 to 40 per cent of the total applications received. Would this be because of availability of funds or because of failure to meet criteria laid down or a combination of both?

Mr. MARTINEAU: Solely unavailability of funds.

Mr. SCHREYER: Also, Mr. Chairman, I note that when applications for grants, let us say in the social sciences study programme, are submitted to the social science research council, that the Council itself does not adjudicate these applications or process them. This is passed on to whom?

Mr. MARTINEAU: We do that ourselves, now. But they made their own recommendations before. Now we have our own judges who make that recommendation. After that, it goes to a panel of experts to look over the decision of the judges to see whether some mistake could have been made. And then it comes to the Council and we examine each one.

Mr. SCHREYER: Mr. Chairman, let me put it this way. Let us say that 30 or 40 applications for a post-doctorate fellowship are received by the Canada Council and these applications are for post-graduate assistance in the social sciences, what happens to those 40 applications? Where do they go first and where do they go afterwards?

Mr. MARTINEAU: In social sciences?

Mr. SCHREYER: Yes.

Mr. MARTINEAU: Well they go to us, where they are processed and then they are sent before five judges, chosen from right across the country, in those particular disciplines. They study each and they mark them. Supposing there are 100 applications; they just start from 1, 2, 3, right down to 100, according to their own assessment. They all vote and they decide that such a one is the best and so they put it on top.

When we made our budget, we had just so much money and we had to divide it. Suppose we had divided it and, in that particular class, there was \$100,000 to divide. That meant so many post-doctorate grants so that, if it meant there was sufficient money for 20 grants, then the first 20 chosen applicants would be recommended. These recommendations would be studied by the panel of experts—I think there are 12 or 15—and after that, the recommendations would be submitted to us.

Mr. WINCH: Would they just study the 20 or would they study the 100?

Mr. MARTINEAU: No, they study the whole thing, they study them all, to see whether a mistake has been made by the judges.

Mr. SCHREYER: So, the judges are, in every case, a five-man panel, I take it?

Mr. MARTINEAU: Yes.

Mr. SCHREYER: It would be, in almost every case, made up of ranking academic people?

Mr. MARTINEAU: Absolutely, taken across the land.

Mr. SCHREYER: And this is an ad hoc group, is it?

Mr. MARTINEAU: Yes.

Mr. BALDWIN: I think probably I will defer my question, Mr. Chairman. It might well come under the ambit of remarks later on.

Mr. BIGG: I am wondering what is the broad policy? Are you trying to develop a Canadian culture, as such? Is there preference given to Canadians doing creative Canadian work or is that wrong? Are you doing just world culture?

Mr. MARTINEAU: We try at times. What we are trying to do is work towards excellence. We are trying to develop excellence in all the arts—because I suppose we are thinking of the arts now. We are trying to do that. This does not necessarily mean national art. But we have given prizes and have given grants for, let us say, Canadian plays or plays by Canadian authors or music written by Canadian musicians; we have done that. But, as a general rule, we do not. We think that art is international and we want our artists to be the best, if we can.

Mr. BIGG: I was just thinking that one of your bottlenecks is apparently your budget. You cannot do everything. For instance, you could spend your whole budget on ballet, if you wanted to.

Mr. MARTINEAU: Yes.

Mr. BIGG: I am just wondering what the terms of reference are. If we spread ourselves all over the map, I would suggest that we would accomplish very little at all—only a very small 2 per cent raise in the cultural level in Canada—whereas I think that a good percentage of it should be directed to the future of Canadian art and Canadian artists, whether you call them national or not. Other nations are perhaps way ahead of us, such as the Italians in singing, and so forth. If Canada is going to have a culture, somebody is going to have to spend some money and I think it has to be directed this way, is it not?

Mr. MARTINEAU: There have been discussions in the Council from the beginning, concerning the way this money should be spent. Some say we should give only to the very finest artists and strive for excellence and nothing else. Others say it should be spread more towards the regions where there can be no excellence. So that we are doing this while, at the same time, trying to foster excellence where it already exists. We do not neglect the others for this but we give less, because we think that if we spread it equally everywhere, it will be so thin that it will hardly help the situation.

Mr. BIGG: The reason I asked the question is because I fear that what we might end up with is a Council helping the excellence from other countries, and our own young Canadian artists might well remain forever in the background.

Mr. MARTINEAU: It is just to the contrary, sir. If you look at the fellowships and scholarships, you will see that they are given to Canadian artists and we are very proud of the success we have had. We have had a few lemons, of course, but everyone has them and one never knows when they will turn up. But, generally, the average has been excellent.

Mr. FLEMMING: I am returning to the question of symphony and my question has to do with the grant of the Council to the New Brunswick symphony orchestra. The last book I have here is for the period 1964-65 and my question is, is that grant still continuing?

Mr. MARTINEAU: Yes, it is.

Mr. FLEMMING: You spoke, Mr. Martineau, about excellence. I can speak with first-hand knowledge about the excellence of the New Brunswick symphony orchestra. I believe the conductor is a most outstanding musician, to the extent of my knowledge of excellence.

I do know that, in our province, that symphony orchestra is considered to be a most excellent one and I am sure it makes a terrific contribution to the general cultural life of people who have a special interest in music. Knowing that that is true, I am pleased to hear you say that the grant is continuing. I presume the grant for the current period has not been determined, as yet?

Mr. MARTINEAU: No, it is going to be dealt with at our next meeting.

Mr. FLEMMING: I do hope, sir, that you will consider that this is very deserving of your continued support.

Mr. MARTINEAU: We realize that, but the trouble you see, with, let us say, Fredericton and the eastern provinces—and maybe the western but particularly the eastern—is that there is less scope for an artist in a small city than there is in a big city. So there is a tendency for the best musicians to leave the small places and go to the large places where they can earn more money, the opportunities being more numerous. And that is what you have been fighting all along, with success, I will admit. This has been your difficulty, I think.

Mr. FLEMMING: But Mr. Cameron has not left and, for that reason, I think deserves continued support.

Mr. MARTINEAU: Oh, yes.

Mr. FLEMMING: I understand he has had many offers that would be much more lucrative, as far as he is concerned, but he is dedicated to the general idea that he is there and that he is going to remain there. So I do hope your Council keep that in mind.

Mr. MARTINEAU: Oh, definitely.

Mr. NOBLE: Mr. Chairman, I would like to ask Mr. Martineau if the Stratford Festival has a high rating in the estimation of the Canada Council and will more financial assistance for this enterprise be forthcoming?

Mr. MARTINEAU: I will say it has the highest rating, sir.

Mr. NOBLE: It has the highest?

Mr. MARTINEAU: It has the highest rating in the arts, as far as we are concerned. I think that we are quite generous with it. We are trying to be as generous, if not more, than with any other theatre in Canada, because we think it is the best.

Mr. WINCH: That is discrimination against Vancouver.

Mr. NOBLE: Is there any possibility of increased support?

Mr. MARTINEAU: We increased the support, I think last year.

Mr. DWYER: It went to \$140,000 which is an increase of \$90,000.

The CHAIRMAN: When did they get that \$90,000 increase?

Mr. DWYER: 1965-66.

Mr. BOUCHER: So it is not reflected.

Mr. NOBLE: One more question, Mr. Chairman. Is it true that a large amount of money was spent in producing a film on ballet dancing?

Mr. DWYER: Not to my knowledge, not by the Council.

Mr. NOBLE: This has not happened within the past two years?

Mr. DWYER: The only knowledge I have of anything of this kind at all is that a certain amount of film was taken, I believe, by one of our scholars while he was abroad. I believe it was in Poland or the Soviet Union. But it was not subsidised by the Council.

Mr. NOBLE: It did not cost the Canada Council any money?

Mr. DWYER: No.

● (11.30 a.m.)

Mr. SCHREYER: One complaint I have heard voiced by applicants at the post-doctorate level, is that there is really no criteria by which they can judge just what it is that the panels and the adjudicating boards are looking for, in processing applications for social sciences post-doctorate fellowships et cetera. Do you think that this complaint is well-founded? Is there such a thing as a White Paper setting out the criteria?

Mr. MARTINEAU: They are given the information they need to answer properly and to make a demand which will be acceptable. The trouble is that they come into competition with students from the whole of Canada and it is quite a difficult competition. Because we cannot, of course, make a grant to every good demand. We refuse a great number of excellent demands, due to lack of money. We have to choose, we are the judges and we have to choose the best.

As I said before, competition is very stiff because it covers the whole of Canada. That is why a candidate can say, "How is it that I did not get it?" Well, he would have to look at the other demands.

Mr. BOUCHER: I wonder, Mr. Chairman, if I could add something. I think I understand the worry of some scholars. Some are good at making a case for themselves, some are not that good. It is a problem to what extent the Canada Council should hold the hand of those who are not terribly good at making applications.

There is another aspect to this also. These are not examinations, they are competitions. Not all the good applicants get awards. By the very nature of the exercise, they are limited by this and, because one has not won an award, it does not mean he is not one who should get an award. It simply means that he is one who does not rank among those who are getting awards, with the amount of money we have in that given year. I think one would have to say that if you went over any competition, any reasonable person would be satisfied that the order of listing is probably the right one.

I do not know what we would be able to do if we had a great deal more money. Eventually it may be that the ideal situation would be to deal with

these problems in a non-competitive way, But, because of limited funds, we have got to have senior artists, as well as senior scholars, entering competitions. They are not terribly fond of doing this because there is something invidious in not being granted one's request but this is the condition under which we have to operate because of our limited funds. We are not terribly happy about it and we do appreciate that some people are somewhat frustrated by this exercise but, at the moment, there is not much we can do about it.

Mr. MARTINEAU: May I add something? At times, a young man will miss an award one year and he will go back the next year and he will get it, because the competition was not the same. He is just as good as he was, but maybe the others are not as good as the ones the previous year. Therefore he gets in among the first 20, considering there are 20.

Mr. BALDWIN: I will go back to the point I was going to deal with because it has been brought up now. I was taken by the statement which appears on page 11 of the Annual Report of 1963-64 that:

Contemplating the arts in Canada at the moment is like listening to Mozart while suffering from a toothache.

I would assume, Mr. Chairman, that the \$10,000,000 has provided some measure of alleviation from the pain which is referred to there.

As far as he can, I wonder if Mr. Martineau would be able to indicate if this \$10,000,000 was to be taken as being a capital payment for a definite amount rather than in the terms of what the Council had mentioned at page 8 of the same report where they had suggested that a sum of \$10,000,000 be added to the endowments funds and that the government consider the addition, annually, of \$10,000,000 for a further period of years.

I bring this up, Mr. Chairman, because I think this seems to go to the root of the problem which has exercised the minds of members here regarding the yardstick and priorities used in connection with the awarding of these endowments. I think this is a very serious matter about which we should all be concerned and I would like to ask Mr. Martineau if he felt free to give us any indication whether, as a result of his discussions at the time the \$10 million was provided, he had arrived at the conclusion that this was to be the final payment? Or was the hope held out that there would be further payments within the terms of what the Council had asked for?

Mr. MARTINEAU: I am sure that it is a sum of money to be spent within a few years—or within a short period of time. It was our understanding that, before long, another amount would be voted to us—and an increased amount because of the increased needs.

In our business the more you grant the more demand you create. It is extraordinary. If you give only so much, you have not so many demands but, if you give more, the demands increase and they keep on increasing. With what you have voted to us, the increase is marvellous and we can give you the figures. But still we wish more, because of the increased demand on our funds. It has done a lot, but we have not yet reached all those who deserve grants. Far from it.

Mr. BALDWIN: I suppose I would be right in suggesting that if this was even ultimately fixed on a statutory basis of a specific sum each year, it would certainly permit the Council to arrange its affairs in a far better manner than if it was simply receiving the ad hoc payments from time to time, welcome as they may be.

Mr. MARTINEAU: Provided, sir, that it would be understood that the demands are increasing and that those statutory grants would be increased by so much per year.

Mr. BALDWIN: Now, with regard to other endowments, I have noticed that there have been other endowments but that the two substantial endowments have been earmarked. Is there any likelihood that you may expect to receive, from private sources outside of the government, payments or endowments which are or are not earmarked, as the case may be?

Mr. MARTINEAU: We will receive a certain amount, but we do not know what it is, for Social Sciences and the Humanities. We do not know how long it will take to receive it. It will take a great number of years. But it is going to take perhaps 10 or 15 years before it is liquidated. Each year we receive a little and, of course, we have to invest it as revenue of this sum which we will be able to use.

We expect that, in the future, Canadians will get into the good habit of leaving some money to the Council so that it can have an increased endowment just like the universities have.

Mr. BALDWIN: Might I suggest as in Alberta, where we seem to be well on our way to dispensing with succession duties, Mr. Martineau.

Now, I ask these questions, Mr. Chairman, simply because, in my view, it is most desirable, having in mind the mandate which is thrown upon the Council under the terms of section 8 of the Act, to foster and promote the study and enjoyment of the production of works in the Arts, Humanities and Social Sciences. Where you have a body, apart from government, which has built up a fund of knowledge and a liaison in the areas where they can do the most good, I ask those questions to indicate my view of how this can be better handled.

The CHAIRMAN: Mr. Martineau, are you making any effort to advise the Canadian public that you would welcome with open arms any amounts of money they would like to bequeath to your Council?

Mr. BOUCHER: Yes, a booklet has been produced and circulated to all persons who are presumed to have some influence on how wills are being written, and to various places in the country where financial advisers can benefit from reading such literature.

The CHAIRMAN: Can you circulate that booklet to the members now? When did you last circulate it?

Mr. BOUCHER: It was sent out, I understand, some two years ago to a very long list of people: all the members of the law profession, Trust Companies, Banks.

The CHAIRMAN: Well now, we will take one more general question then we will ask Mr. Long to proceed.

Mr. BIGG: Are you set up to administer Trusts? For instance, if somebody left a sizeable Trust would, this be quite simple to handle, in your financial set-up? Say, if you were left \$1 million for ballet? Could you earmark a special gift?

Mr. MARTINEAU: We have a very strong investment committee, composed of Mr. Hungerford, who is the President of the National Trust; of the President of the Bank of Montreal, and of the Trust General du Canada and myself and Mr. Moore of Imperial Oil. We look after all the investments and that is what we do—we just watch. We act as trustees.

Mr. BIGG: That is not quite what I want. I asked whether you were set up to take specific bequests and see that they were earmarked.

Mr. MARTINEAU: Oh, yes, the law permits that.

The CHAIRMAN: Mr. Long, would you proceed with the long form report for 1964, but just hitting on those parts that do not appear in the 1965 report.

Mr. G. R. LONG (*Assistant Auditor General*): Thank you, Mr. Chairman. Anticipating a suggestion that we only pick highlights in the 1964 report, I made quite a close comparison of the two reports and, assuming that the members do not want to get into particular figures for the year, I think we can safely pass over the 1964 report. Anything that is specific to that year is of a very minor nature aside, of course, from the figures themselves. But you do see the more important of those figures in the comparisons in the 1965 report. So I would suggest if it meets with your approval, that we concentrate on the 1965 report.

The CHAIRMAN: Agreed. Proceed.

Mr. LONG: First, I might mention that the Canada Council is the subject of paragraph 174.

The CHAIRMAN: Excuse me, Mr. Long. I think this is what we are dealing with, is it not? Gentlemen, this is the copy we are dealing with, exhibit No. 7.

Mr. LONG: The Canada Council is the subject of paragraphs 174 of the Auditor General's 1964 report to Parliament and 225 of his 1965 report. I might explain that the accounts of the Canada Council are divided into three broad categories. First, the Endowment Fund, then the University Capital Grants Fund and then the Special Funds and there are separate statements for each of these categories.

Page 1 of the report is self-explanatory and on page 2, references to the Endowment Fund commence, showing at the top of the page that the Fund had an income of \$3.1 million in the year and expenditures of slightly more than this amount, leaving a surplus in the Fund of \$50,000 at March 31, 1965.

Members of the Committee will remember that this Fund was established in an amount of \$50 million by section 14 of the Canada Council Act. This Fund is, of course, kept intact, with the income of the Fund being used for purposes of the Act. At the bottom of the page the source of the income is shown, this broadly being income on investments and, beneath the table, it is shown that the rate of income is 5.4 per cent of the book value of the investment portfolio and this amounts to 6.3 per cent of the original fund of \$50 million.

(Translation)

Mr. LEBLANC (*Laurier*): Could we be told what is the Act governing the Canada Council, and whether this Act gives them the proportion of investments they have to make, just as insurance companies have to follow certain criteria regarding investments? They cannot invest more than 10 or more in common shares. Can the Canada Council, under the Act, have to invest its money in one way or another, in a definite way?

Mr. MARTINEAU: One of the two funds must be invested in a certain way, the University fund in the event. I am sorry, Mr. Leblanc. . . . Section 17-2 says this:

(2) Grants made by the Council under section 9 may be paid out of the University Capital Grants Fund, but shall not exceed. . . .

(3) Investments out of money standing to the credit of the University Capital Grants Fund may be made only in bonds or other securities of or guaranteed by the Government of Canada.

In that respect we are restricted.

Mr. LEBLANC: As far as the University fund is concerned?

Mr. MARTINEAU: As far as the University Fund is concerned. We are not under any restriction as far as the other is involved.

Mr. LEBLANC: You are not restricted as far as the other one is concerned?

Mr. MARTINEAU: No.

Mr. LEBLANC: What kind of mortgages do you take out? You have \$800,000 here which, as you indicate, is invested in mortgages. Is this commercial property, industrial property, private homes?

Mr. MARTINEAU: We deal through Central Mortgage. Mr. Fullerton will be able to tell you exactly.

(English)

Mr. D. H. FULLERTON (*Investment Consultant, Canada Council*): Well about three quarters of our mortgages are National Housing Act mortgages. The balance are commercial mortgages of office buildings and institutions. But they are mainly N.H.A. mortgages and small houses.

Mr. LEBLANC: So you have about 25 per cent other than the National Housing Corporation, that you invest in mortgages.

Mr. LONG: Section 16 of the Canada Council Act provides that expenditures made for the purposes of the Act, other than capital assistance grants to institutions of higher learning, may be paid out of the income earned by Endowment Fund investments.

On page 3 a summary is shown of the expenditures of \$3.1 million of which \$2.6 million was for grants and awards, \$88,000 on direct expenses in connection with the Canadian National Commission for UNESCO and \$436,000 on administrative and other expenses. The grants and awards authorized by the Council are listed in the Annual Report of the Council.

The CHAIRMAN: Some questions with respect to expenditures. They show an increase of almost \$100,000. Has any member any questions to ask there? Granted, \$75,000 is an increase in grants. The other is made up of internal operation, I would think. Mr. Martineau, your administrative costs are up \$17,000 and your share of UNESCO of \$6,000. Have you any comments to make there?

Mr. BOUCHER: I do not know that I have a detailed explanation for these; I was not on the Council at the time. But I would assume that the \$17,000 increase in administrative costs, which is a relatively small amount, would probably correspond to re-adjustment in salaries. The \$5,000 for the UNESCO Commission would probably correspond also to the same.

I understand, also, that this was the year when the national conference of the Commission was held.

The CHAIRMAN: I notice that on page 4 the \$88,000 is broken down and you show an increase of \$5,600 in the cost of your Commission's meetings. Can you give us some explanation? Did you have more meetings or were they held at a greater distance away or something?

Mr. D. W. BARTLETT (*Secretary, Canadian National Commission for UNESCO*): I am sorry, Mr. Chairman, there are limited places at the table. I think the explanation for that extra \$5,000 is that it was customary in the National Commission every other year to have a major bi-annual conference, in addition to the regular annual meeting of the National Commission. And this would account for the additional expenditure in that year.

The CHAIRMAN: Do I follow correctly that you are having more Commission meetings than you used to have? Is this the explanation?

Mr. MARTINEAU: No, every second year there is an international one and, at that time, I think it took place in Paris.

Miss L. BREEN (*Secretary-Treasurer, Canada Council*): No.

Mr. MARTINEAU: No? Where did it take place?

Miss BREEN: You mean the national conference which took place in Montreal.

Mr. MARTINEAU: Then I have it wrongly.

Mr. BARTLETT: The \$5,659 was due mainly to the holding of the Fourth National Conference in Montreal in 1965. So there we have the explanation.

Mr. MARTINEAU: I thought it was the one in Paris.

The CHAIRMAN: Just one other question on that same page, regarding travel. There was a round the world trip taken by the Secretary. Was there more than one person on this trip?

Mr. BARTLETT: Mr. Chairman, it was my predecessor who took that trip. I would only make two points, one is that a certain amount of international travel is necessary in connection with an international organization. That particular trip was in connection with the first establishment of CUSO, the Canadian University Service Overseas, of which my predecessor was the temporary

Organizing Secretary and to which the National Commission gave financial and other support during the organizational phase. The actual purpose of that trip was to investigate possible placements of CUSO personnel in overseas countries.

The CHAIRMAN: Is your predecessor with CUSO now?

Mr. BARTLETT: He resigned about a year and a half ago and is now with the staff of the World Bank in Washington.

The CHAIRMAN: His trip was not of too much use to you, I would say, when he resigned or left the organization shortly afterwards.

Mr. BARTLETT: Mr. Chairman, the real purpose of the trip was to get CUSO started and, in this sense, it was very successful indeed, as members of the Committee will know.

Mr. LONG: It was by Order in Council passed in 1957, under authority of section 8, subsection (2) of the Canada Council Act, that the Council is required to provide these expenses of the Secretariat of the Canadian National Commission for UNESCO. Reference has been made to the expenses of \$88,000. These are, by the way, the direct costs incurred. It includes nothing for overhead.

The administrative and other expenses amounting to \$436,000, are shown in comparative form in the Statement of Income and Expenditure and Surplus of the Endowment Fund. As is pointed out at the top of page 5, these include expenses relating to the administration of the University Capital Grants Fund and indirect expenses relating to the operation of the Canadian National Commission for UNESCO and administration of the Special Funds and the Programme of Cultural Relations and Academic Exchanges with countries of French expression.

The Council recovered in this year \$4,000 from the Special Funds to cover costs of administration and \$3,500 from the government of Canada for administering the cultural programme.

Mr. BALDWIN: May I ask a question here? I do not mean to interrupt you but, regarding the work in connection with the UNESCO National Commission by which, under section 8, subsection (2) of the Act the Governor in Council may assign to the Council certain functions and duties, has the Council given consideration to the possibility, where there is a special assignment of what is certainly a related government duty, whether this would not be better met by an outright direct government grant? Has this ever been considered or discussed? Rather than the moneys coming out of the earnings and the funds of the Canada Council, which probably might be better directed to other causes.

Mr. MARTINEAU: We would much prefer it that way but this was foisted on us and we take care of it the best way we can. But if Foreign Affairs want to take it over, we would have no objection to their taking the cost over, anyway.

Mr. BALDWIN: Our Committee might give some thought to there being a direct relationship between the duties assigned to you under section 8 subsection (2) and a special grant from the government to cover that.

The CHAIRMAN: Mr. Martineau, I suppose this is all laid down under section 8, to which Mr. Baldwin refers. But I would think the original idea of the

Council being administrator for UNESCO was to more or less get it off the ground and get it established. This is the organization that sells the Christmas cards, is it not?

Mr. MARTINEAU: No, that is UNICEF.

The CHAIRMAN: I am sorry, I withdraw.

● (12.00 a.m.)

Mr. BOUCHER: I wonder, Mr. Chairman, if I could add something there. I think if one were to reconstruct the reasoning behind this at the outset, it will be found that it is connected also with the necessity of maintaining a certain autonomy for the UNESCO Commission and this association with the Canada Council, which is an autonomous body, not really under direct instruction from the government. I think it is because of the independent nature of the UNESCO Commission, which is not an agency of the government, but a body that is there to encourage activities among non-governmental organizations in this country, that the two were associated. It still leaves open the question of whether it could be financed by another device. But I think that the intimate relationship between the two should not necessarily be broken if another form of financing were adopted.

Mr. BALDWIN: I understand that, yes.

Mr. LONG: Continuing on page 5 of the long form report, there follows an explanation of the more significant increases and decreases in the expense categories. It will be noted that the fee paid to Fullerton, Mackenzie and Associates Ltd. for managing the Council's investment portfolio increased by \$2,500 during the year. The fee paid to this firm of investment consultants is now at the rate of \$20,000 per year.

The CHAIRMAN: May I ask a question while you are still on the same item?

Mr. LONG: Certainly.

The CHAIRMAN: The consultants' fees used to be \$15,000 plus telephone expenses, is that right?

Mr. MARTINEAU: Yes.

The CHAIRMAN: Now it is \$20,000 over-all?

Mr. MARTINEAU: Over-all.

The CHAIRMAN: What were the telephone expenses previously? They were paid \$15,000 a year plus telephone expenses.

Miss BREEN: It never was paid. It never amounted to \$5,000, is that not right, Mr. Fullerton?

Mr. FULLERTON: I was able to lower most of them and a small amount of calls were charged to the Council; I think they totalled around 7 or \$800 per annum. But they form part of the Canada Council's telephone budget and are all included in that budget.

The CHAIRMAN: So your fee was \$15,000 plus \$800 roughly, and now it is a \$20,000 fee over-all?

Mr. FULLERTON: Yes.

The CHAIRMAN: And who pays the \$800?

Mr. FULLERTON: The Council.

Mr. MUIR (*Lisgar*): What percentage of the investment income would this amount to have you any idea? It could be worked out, I suppose, from the figures we have.

Mr. MARTINEAU: The investment income was roughly \$3 $\frac{1}{4}$ million at that time.

Mr. FULLERTON: There are the three funds. It is the total income from the three funds and they are above \$4 million so it is .005 and 1 per cent, I think. Something like that.

Mr. MUIR (*Lisgar*): Do you pay them the \$20,000 plus a percentage when they buy the stock for you?

The CHAIRMAN: Oh, no, over-all, that is not fair.

Mr. MARTINEAU: It is a flat fee.

Mr. MUIR (*Lisgar*): This is what I wanted to know.

Mr. BOUCHER: It is all he gets.

Mr. BALDWIN: Out of this, may I ask is it correct that because of the investment policies there was a sum of some \$15 million which was distributed, was it last year? At least a total of \$15 million was derived from the investment of the University Capital Grants.

Mr. MARTINEAU: These were the accumulated interests.

Mr. BALDWIN: Yes, accumulated interests and investment.

Mr. MARTINEAU: Through the wise investment of Mr. Fullerton, the Council has made about \$6 million in capital gains.

Mr. MUIR (*Lisgar*): Even with the New York Dow Jones going down as it is today?

Mr. MARTINEAU: Well, we will say that we have lost a little, but very little compared with the gains we made.

Mr. SCHREYER: Regarding this firm of consultants, Fullerton, Mackenzie and Associates Ltd., I take it that they manage the investment more fully on a day to day basis, subject to the direction laid down by the trustees?

Mr. MARTINEAU: By the Finance Committee?

Mr. SCHREYER: Yes.

Mr. MARTINEAU: We have regular reports and we make regular remarks.

The CHAIRMAN: I think Mr. Long is going to cover that more fully later on, Mr. Schreyer.

Mr. SCHREYER: Right. Thank you.

Mr. LONG: One other item mentioned on this page is that there was a reduction of \$2,500 in the amount paid to the Canada Foundation for the

adjudication of applications of Art Scholarships. It will also be noted that printing and duplicating costs increased by \$6,500 due to the publishing, for the first time, of the Canada Council News and also an awards booklet.

The CHAIRMAN: May we ask to have this Canada Council News shown to the Committee? Have you a copy of it? Have you one with you?

Mr. MARTINEAU: We send it regularly all across Canada. We can either have some copies this afternoon for members of the Committee or send them to you, Mr. Chairman, for distribution.

The CHAIRMAN: As I understand it, this is a new endeavour; the first time you have done this?

Mr. MARTINEAU: Yes, to let people know exactly what the Council is doing.

Mr. BOUCHER: It replaced the bulletin previously circulated by the Council.

Mr. LEBLANC: Do you send it to Members of Parliament?

Miss BREEN: We send it to anyone who asks for it.

Mr. LEBLANC: Are we on your mailing list?

The CHAIRMAN: Members of Parliament are not on the mailing list, unless they request to be.

Mr. BALDWIN: The Committee should be aware that Members of Parliament engage in the Dramatic Arts from time to time.

Mr. BOUCHER: Do you want us to report on this?

The CHAIRMAN: I think it would be good public relations, Mr. Martineau, to have your Canada Council give it to Members of Parliament. There may be appropriations coming up and you might like us to pass judgment on them.

Mr. MARTINEAU: Mr. Chairman, an excellent suggestion.

Mr. LONG: Turning to page 6, reference is made to expenditures incurred in the operation of Stanley House. Stanley House, which is located at New Richmond, Quebec, on the South Gaspé shore, together with household furnishing and effects, was accepted as a gift by the Council in November 1961, to be used not only as a place where artists may work, but also as the locale for discussions on policy with experts in various fields.

These expenses were \$13,000, or slightly more than half of the expenditures on Stanley House in the previous year. This is mainly because an extensive programme of renovations had been carried out in the previous year.

On page 7, particulars are given concerning the administration of the scholarship plan under the Programme of Cultural Relations and Academic Exchanges with countries of French expression. A total of \$170,000 was paid out on behalf of the Department of External Affairs of which \$128,000 was in the form of awards.

Commencing at the bottom of page 7 are comments on the various assets of the Endowment Fund and reference is made to cash of \$479,000. Amounts receivable for securities sold but not delivered total \$2.3 million and there is an amount of \$1,600 due from the government of Canada in respect of expenditures made on behalf of the Commonwealth Arts Festival.

The Endowment Fund investments of the Council amounted to \$57.9 million at March 31st, 1965. On page 9 a further reference is made to the firm of Fullerton, Mackenzie and Associates Ltd., who managed the investments and an outline is given of the investment policy of the Council.

Briefly, the policy is that the Council lays down the classes of securities to be acquired and the limits of holdings of any class. Within this framework, securities are acquired, managed and disposed of, with the advice of the Investment Committee.

Mr. THOMAS (*Middlesex West*): Is there an outline anywhere in the report of these classes of securities and investments?

The CHAIRMAN: Yes, on the back.

Mr. LONG: Not in our report, Mr. Thomas, but in the Annual Report of the Council.

The CHAIRMAN: There is a list of securities on page 84.

Mr. MARTINEAU: On page 84 and following, of the 1964-65 report.

Mr. LONG: The investment portfolio is planned to provide the maximum return consistent with the necessity of maintaining the principle of the fund intact. Therefore, there are numerous sales and purchases throughout the year.

On page 10 details are given showing that securities amounting to \$58.8 million worth were purchased during the year and security sales amounted to \$56.9 million. Reference is also made to the accumulated net profits on security sales which, at March 31st, totalled \$6 million and this is held as a reserve against possible future losses.

Mr. MUIR (*Lisgar*): Pardon me, has this been called the capital gain? This is the capital gain of \$6 million you mentioned?

Mr. MARTINEAU: Yes.

Mr. MUIR (*Lisgar*): Do you add that to your capital account?

Mr. MARTINEAU: We put it as a reserve against possible future losses.

Mr. MUIR (*Lisgar*): I see.

Mr. MARTINEAU: We do not distribute it. It is invested and used in money.

The CHAIRMAN: Mr. Schreyer, maybe that question you had would fit in here.

Mr. SCHREYER: Yes, it is answered there, except that I would like to put a supplementary question.

It seems to me that, with the Finance Committee of the Council being made up of men who are so experienced in investment, the firm retained here, Fullerton, Mackenzie and Associates Ltd., do not actually provide any investment counselling service; they just look after the mechanics?

The CHAIRMAN: I imagine you would like to know how often they consult the Finance Committee before they proceed to act?

Mr. MARTINEAU: I think Mr. Fullerton will satisfy you.

Mr. FULLERTON: If I can describe our operation, we are technically an investment council; that is our principal function. But there are daily operations involved, discretionary powers to buy and sell, and it means applying judgment all the time. We are making decisions on the purchases and sales almost on a minute to minute basis.

Mr. MUIR (*Lisgar*): Just charging 2 per cent, I think that is a pretty good investment for the Council to make.

The CHAIRMAN: May I ask, has the same company of Mr. Fullerton and associates handled your investments since the inception of the Council?

Mr. FULLERTON: Well, I started out as the Treasurer of the Council and I resigned in 1962 to establish my own firm. But my function at the Council has gone on almost unchanged, I would say, in terms of the purchases and sales of securities.

Mr. MARTINEAU: If you will permit me, Mr. Chairman, there are a great number of transactions every day, because the idea is to take advantage of any rise in buying prices or any decrease in stock prices, so as to be able to switch, make a profit, and wait for another. That is the way those \$6 million have been accumulated. But this needs watching every day and all day, just to take advantage of that faction, and that is what Mr. Fullerton does. We can say that we are the Committee and that he is going to deal in such a kind of security, but we do not tell him when to do it. He chooses the time.

The CHAIRMAN: Is Mr. Fullerton's office in the same building as yours?

Mr. MARTINEAU: Yes, it is.

The CHAIRMAN: You are operating in the same building as the Canada Council?

Mr. FULLERTON: I operate in a separate office. I have my own office adjoining the Canada Council in order to make it easier to carry on the mechanics of the contracts arriving in and so on.

Mr. LONG: I think, if the Members of the Committee note that this investment portfolio turns over completely in the year, they will realise that there is a considerable amount of work involved there.

We do give at the bottom of page 10 a listing of the investments by category. At the top of page 11 information is given regarding the basis of valuation of the various investments and, in the middle of the page, reference is made to the fact that Stanley House, which was received as a gift in 1961, is carried on the books at the nominal value of \$1.

The CHAIRMAN: May I ask a question on Stanley House? Is it fulfilling a useful function? How many people used it last year, for instance?

Mr. BOUCHER: Well, there are seminars being held to the full capacity of the house throughout the summer months. It is closed the rest of the year but it means that, for some eight or ten weeks during the summer, every week some 15 people, grouped around a common problem, have the house to themselves. They are being taken there and fed and accommodated for the period. And these groups could deal with a variety of problems. It could be painters who are

discussing the economic problems of what it is to be a painter today; it could be economists who are discussing together what sort of use they can make of computers. It is given to various groups who apply for it and who are taken to the house and who are really on their own.

Usually there would be a convener, who is an outsider to the Council, who gathers these people together to thrash out some particular problem. And the total cost, at the moment, of Stanley House, is more in the nature of \$8,000 than the figure that we have for those years. That is about all it costs the Canada Council. And that includes taking the people there and feeding them, which is rather inexpensive.

Mr. MARTINEAU: May I add this, that if you look at page 28 of the report for 1964-65, you will see what meetings were held there—a symposium on international legal questions; a musicians' meeting to discuss relations between academic institutions of music; a poets' meeting; a symposium on the forces affecting the quality of community life in Canada, and other such questions.

We have debated, ourselves, whether it is worth the money and we came to the conclusion that it was worth it.

Mr. BIGG: This would be cheaper than renting other accommodation such as a hotel room?

Mr. MARTINEAU: Oh, yes.

Mr. MUIR (*Lisgar*): Mr. Chairman, may I ask if the Committee are to be supplied with this book called "The Private Benefactors in the Canada Council"? It is being passed around now, and I am just wondering if it could be supplied.

Mr. MARTINEAU: We will do so.

The CHAIRMAN: Thank you, Mr. Muir. That will be included with the Canada Council News, I presume, when copies are sent to the members.

Further to Stanley House, the Council is quite satisfied that it is serving a very useful purpose? Do you not think it could be used to a greater extent than, say, 15 people for a period of ten weeks. That is only 150 people.

Mr. MARTINEAU: It is a highly selective operation, both with regard to the Arts and our academic programme. It cannot easily accommodate more than 15 people and, generally, these sort of meetings are not very successful if they go beyond a group of 15 people. It is an ideal size of group to discuss a problem in some depth.

It might be run over the year, but it would be quite an operation to find, every year, some 8 or 10 groups who really have a significant problem to discuss in some depth. I think that, at that pace, it means that over a period of a few years there will be a number of people who will have had an opportunity to discuss, in a rather unstructured way, some rather deep problems. We think that, on the whole, it is a very profitable operation.

The CHAIRMAN: When you close it up in the winter do you keep someone there to look after it?

Mr. MARTINEAU: It is heated. There is a caretaker who lives just a short distance away.

(Translation)

Mr. LEBLANC (*Laurier*): Mr. Chairman?

The CHAIRMAN: Yes Mr. Leblanc.

Mr. LEBLANC (*Laurier*): Do you not feel that the Public Accounts Committee, which does not have too many opportunities to travel, should go there, to find out if the house is well kept, as we would like it to be?

Mr. MARTINEAU: May I add to your suggestion, Mr. Leblanc. We might extend that particular sitting over a whole year.

Mr. LEBLANC (*Laurier*): I would feel that way.

The CHAIRMAN: Mr. Leblanc, I think we will make you a committee of one, to arrange a week-end conference for the Committee.

Mr. LEBLANC: The suggestion came from Mr. Cameron.

The CHAIRMAN: Well, put him on your committee, then.

Mr. MUIR (*Lisgar*): Mr. Chairman, I wonder if I may ask a question regarding this bonus stock that you have? When you carry it at no book value, how would you show the increase, if there has been an increase, in the value of this stock?

Mr. MARTINEAU: Mr. Fullerton can answer that.

Mr. FULLERTON: That bonus stock was part of a package of a bond plus stock attached. When the stock was sold, it was taken as a profit and noted as part of our profit reserve. But the stock was actually sold later on.

Mr. MUIR (*Lisgar*): Was that money re-invested?

Mr. FULLERTON: The money is always ploughed back into the total portfolio.

Mr. LONG: The last item mentioned on page 11 is the liabilities of the Endowment Fund which include accounts payable of \$40,000. Amounts payable for securities purchased but not received is \$3.4 million, that being shown at the top of page 12.

Grants and awards approved but not yet paid amounted to \$1.8 million and comparative figures are given, showing authorizations of \$2.6 million during the year and payments of \$2.5 million.

At the bottom of page 12 it is pointed out that the reserve arising from net profit on disposal of securities increased by \$1.4 million during the year, due to profits on securities sold and, at the year end, amounted to \$6 million. As mentioned previously, this was held to provide for possible future losses incurred on the disposal of Endowment Fund investments.

I might add here, Mr. Muir, if you have a problem with this, these securities are not dealt with in any different way from the other securities. The only difference is that this money is not put with the Council's money available for grants or expenses. It is held there in case there should be a future loss.

Mr. MUIR (*Lisgar*): I see.

Mr. LEBLANC: But it is re-invested to bear more interest and to provide more funds for the Council?

Mr. LONG: This is the reason, as I pointed out in one of the earlier pages, that the return on the \$50 million originally given to the Council, is something over 6 per cent. It is after taking into consideration the earnings on these profits.

Reference to the University Capital Grants Fund commences on page 13. Members of the Committee will recall that this is a \$50 million fund provided to the Canada Council to enable it to make grants to universities and similar institutions of higher learning, by way of capital assistance in respect of building construction projects, to promote the study of Arts, Humanities and Social Sciences.

Reference is made to the statutory report made to the Canada Council and to the Secretary of State under date of June 1st, 1964, and which was qualified to the effect that the use of the 1956 census as the latest census and the hotchpot or trust fund approach adopted by the Council as the basis of allocation of the accumulated interest and profits of the University Capital Grants Fund was not, in our opinion, in accordance with section 17 (2) (b) of the Canada Council Act.

Members of the Committee will recall that this qualification was the subject of a recommendation of the Committee that amending legislation be sought to provide clear authority for the policy which the Council has followed. This recommendation appears as item 30 of the Auditor General's last follow-up report. It was necessary for the Auditor General to repeat this qualification in his statutory report because no action had been taken towards seeking the necessary legislation.

Assets of the University Capital Grants Fund included \$5 million receivable for securities sold but not yet delivered and investments of \$15.8 million about which certain details are given on page 15. It will be noted in the middle of the page that purchases of investments during the year amounted to \$27.5 million while sales amounted to \$55.9 million.

The CHAIRMAN: I wonder could I ask a question here? It states here that, during the financial year ended March 31st, 1964, the Council allocated roughly \$15 million to eligible institutions. Is there a list in the Annual Report, or some other place, of which institutions received these grants?

Miss BREEN: Yes, there is.

The CHAIRMAN: What page?

Miss BREEN: Pages 25 and 26. The list is at the first half of the page.

The CHAIRMAN: Oh, yes. Thank you.

Mr. BALDWIN: May I ask a question here? I have in mind a point which Mr. Long raised and which, I think, came up for a thorough discussion at the last meeting. Were there any complaints about the use of the 1956 census and the hotchpot method of distribution? No complaints?

Mr. MARTINEAU: No.

Mr. BALDWIN: I means, outside of the complaint of the Auditor General. That is what I meant.

Mr. MUIR (*Lisgar*): Will the 1956 census continue to be used or will you bring it up to date?

Mr. MARTINEAU: We intend to just keep on doing what we have done in the past because we think, with all due respect to the Auditor General, that we are interpreting the law as it should be. And I think that, last year, after we had explained to the Committee how it had been done, the Committee seemed to be in accord with us.

Mr. BALDWIN: We thought the onus was on the government to make a change in the legislation at the first available opportunity.

Mr. SCHREYER: The \$15 million in investments held by the University Capital Grants Fund is, of course, limited to government of Canada securities, but who looks after the day to day management of that?

Mr. MARTINEAU: Our Finance Committee.

Mr. SCHREYER: I see, this is all part of the arrangement?

Mr. MARTINEAU: Yes.

Mr. LONG: I wonder if I might ask Mr. Martineau if the Council therefore does not intend to seek a change in the legislation at a convenient time, in accordance with the recommendation of the Committee?

Mr. MARTINEAU: I think that we would be very badly placed to go to the government and say they should amend when we think that no amendment is needed. We think that we are right, that we are just following the law and that we could not logically go to the government—even though we insist we are right, we are sure of it—and ask them to still amend the law to say that we are.

But there is another and more fundamental reason than this one. It is up to you gentlemen in this Committee to do what you did last year and make a recommendation. After that, it is out of our hands and it is for Parliament and the government to decide, not us.

Mr. BIGG: What is the problem? Is the system inequitable? Why should it be changed?

Mr. MARTINEAU: We do not see that it should be changed. We follow a certain formula and the Auditor General thinks we should have followed another formula concerning interest gained for funds which were not used immediately. There was the \$50 million given, then there was a division by province and by institution. Some of these drew immediately and others did not, so there was interest accumulated. So we have been giving the credit of the interest to those who have not drawn, not to those who have already drawn.

For instance, let us say that a province or institution has withdrawn years ago, everything that came to it and that some others have not, and interest has accumulated on these amounts which have not been used. We say to the institution which did not draw at the beginning, that they should have the benefit of the interest, and that is what we do.

Mr. MUIR (*Lisgar*): In other words, the institution which has already drawn has lost the equity.

Mr. MARTINEAU: It has had the use of the money for years and the others have not. When we give them the money we say that they are entitled to their original amount plus interest to date on those amounts.

Mr. BIGG: But surely the principal grant is to supply funds for need? Supposing one province lost all its population, you would not expect them to get a prorata amount of money if they had no institution to keep up?

● (12.30 p.m.)

Mr. MARTINEAU: You are talking of the census now?

Mr. BIGG: Yes.

Mr. MARTINEAU: Well then, let us suppose something else. Let us suppose that, let us say, Saskatchewan has drawn the first year everything that was coming to it. Well now, are we, the next year, going to take another census and say that, according to the latest census, Saskatchewan was not entitled to what it got? And are we going to ask Saskatchewan to return some of the money we gave it? Then, in another year, the proportion would again be changed, according to the population.

We thought that the logical way was to fix it once and for all and then follow it through to its logical end. Mind you, it is debatable because, if it was not, the Auditor General would not take the opposite view.

Mr. BIGG: Well, it seems that we have a census in order to bring everything up to date. I am talking as a legislator, now, and not as a banker. But we intended to give equitable artistic help to all the population and if there is a shift in population, then we should try to adjust as near as possible, without turning down any institutions or asking for refunds, to keep the new population abreast of the times.

Mr. MARTINEAU: That was only for institutions; that was for University grants, you see. Let us say that \$10 million went to Saskatchewan and it was divided among so many colleges, of which we have the names, together with the amounts. Some immediately withdrew their amount. They were ready for it and had plans to build. Others had no plans or they were not ready to pay the 50 per cent in addition, which they had to pay, so they delayed a few years. Some still have some money to come. We thought that those who had not withdrawn were entitled to the interest and that others, who had had the use of that money, were not entitled to the interest. That is the question in a nutshell.

Mr. LONG: I wonder if I might just put the Auditor General's point of view here in a slightly different light? It is not that the Auditor General thought that the Council should have used a different formula. The Auditor General thought, and still thinks, that the Act requires the Council to use a formula different from the one they used. The Auditor General does not question the merit of what the Council did, and I do not think members of this Committee question that. That was why the members of the Committee suggested that, to remove any question of this, a slight change in the Act be made at some convenient time.

Now, this is one of the outstanding recommendations of this Committee and the Committee will be wanting to know why it is not being followed. Or, if they are going to accept the fact that it is not going to be followed, the Committee will have to decide to withdraw that recommendation.

Mr. BALDWIN: This is one of the 80 per cent that the government has ignored, so far.

Mr. BIGG: Again, as a lawmaker, I would suggest that we were encouraging the provinces and the institutions to partake of this rather forward looking move and, if they neglected to take advantage of it, as of the date of 1956 or whenever they had the chance, that is a risk one always takes by not taking advantage of a move. I do not see why they should be protected from their negligence and I would call it negligence in this case.

Mr. MARTINEAU: I do not think it has been negligence because it was on a 50 per cent basis. We could only offer 50 per cent, on all these amounts, provided the universities would pay the other 50 per cent. Some were financially unable to take advantage of that, so it was not a question of neglect. In some cases, their programme had not reached that particular stage. They were all anxious to have it, mind you—all of them. It was a question of timing.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, can Mr. Martineau give us examples of several institutions that were so unable to take advantage of this?

Mr. MARTINEAU: Here are those who still have capital coming to them, from getting the interest. There is St. Michael's University at Toronto; St. Peter's College in London, Ontario; McGill University, Montreal; The University of Montreal; Luther College in Saskatchewan and the College Sacré Coeur in Saskatchewan. These are the only six which still have some capital coming to them.

Mr. THOMAS (*Middlesex West*): Well now, are you suggesting to the Committee, Mr. Martineau, that the reason these institutions did not use what was considered their share of the capital grants was because of their inability to put up the other 50 per cent?

Mr. MARTINEAU: Or get the land. Or, in the bigger institutions, that it was not according to the schedule of their development.

Mr. BIGG: Or that they were not interested in the Arts?

Mr. MARTINEAU: No, it is not a question of the Arts, because there are three subjects, in all here. There are also the Social Sciences and the Humanities, so it is not only a question of the Arts.

Take, for instance, Montreal. They have had a big building program and the University of Montreal and McGill University have done a lot of building. But there is a limit to their capacity for building and I take for granted that they did not have the money to add, or they would have taken this money. The same for St. Peter's College in London. Take Luther College in Saskatchewan, there is only \$17,000 allocated to them but I am sure they could use this. But they have to put up \$1,700,000 in order to build something.

The CHAIRMAN: Mr. Martineau, it is also the case that those others in the Province of Quebec were not allowed, by the Premier of the province at that time, to build.

Mr. MARTINEAU: In the beginning, yes. But still Laval has taken everything, as far as I can see. Montreal still has \$2 million coming.

For a while, these funds accumulated, because Mr. Duplessis was threatening that if the universities accepted this money, he would cut them off from his own subsidies. They were struck between the two and the money accumulated.

Mr. BOUCHER: I wonder if I could add something, Mr. Chairman. I think there may be several reasons why the timing was not anticipated and I think this is really the fundamental question. This measure was adopted on the heels of the Massey Report and I do not think it was regarded, even at that time, as a measure which would fully look after the problem of the capital needs of Canadian universities. It was a contribution towards that problem and I think it was anticipated that the money would be expended over a relatively short period of time because of the case that had been made on the part of the universities for the great need for capital funds.

It is only with the passing of time that it was discovered that it had to fit into the calendar of priorities of the various universities. Some of them wanted to have their Medical school built first and then to have perhaps their School of Dentistry next and, eventually, a Law building. So it is this problem of priorities in their own building programme, plus at times, we understand, the problem of securing the exact piece of land which they had in mind and which is the case, I understand, with Toronto, before they could build.

The situation, therefore, seems to have changed and that is why the Canada Council has always taken into account the timing factor. The deciding factor was the year 1957-58 when it started. That is why the distribution was made and, if some people did not take up the offer at that time, it was just because they were prevented from doing so and it was really a decision which was a one-time decision.

This is really the fundamental position that the Council has taken, that it was never the intention of the government or of the Parliament of those days to establish a sort of permanent fund which would be replenished, because I think everybody is agreed that if more money were again voted by the House for this same purpose, it probably would not go to this Fund. It would be a quite separate exercise and would probably be expended by another agency of the Canada Council.

The CHAIRMAN: I think this is a very debatable subject and perhaps it would be best to leave it at this point in the hope that we can finish this report by 1 o'clock so that it will not be necessary to have the Council back this afternoon.

Mr. LONG: The liabilities of the University Capital Grants fund are referred to, commencing on page 16 and include \$5 million owing for securities purchased but not yet paid and \$5.7 million for grants which have been approved but not yet paid out. Towards the bottom of the page, the amounts of grants authorized and paid in each of the years since the inception of the Council is given. Reference is made to the Principal of the Fund amounting to \$10.2 million on page 17. Of this amount, \$8.8 million has been allocated and \$1.4 million is unallocated. This latter amount represents interests and profits accumulated since September 30th, 1963.

The Special Funds are also referred to on page 17. These include the special Scholarship Fund on which a further instalment of \$130,000 was received,

which represents moneys received in respect of an anonymous gift of approximately \$4½ million, bringing the amount of the fund to \$1.2 million.

The two sections of the balance sheet of the Special Funds are explained on page 18, the first section recording an amount of \$2,500 held to be used for purposes specified when it was given to the Council. A reference to this section of the balance sheet will indicate that donations of this type amounting to \$12,500 were received during the year and an amount of \$13,500 was expended for the purposes for which it was received by the Council.

The assets of the second section of this balance sheet, which relate to the Special Scholarship Fund and the Molson Prize Fund of \$600,000 which was received from the Molson Foundation in September 1963, include cash at \$27,000 and investments of \$1.9 million. A listing of the categories of investments held is given on page 19, followed by the basis of valuation.

Grants and awards from the Special Scholarship Fund, approved but not paid out at March 31, 1965, amounted to \$74,000 and, at the top of page 20, it is shown that such authorizations amounted to \$66,000 during the year and payments amounted to \$48,000.

The reserve arising from net profit on disposal of securities increased by almost \$13,000 during the year and, at the year end, amounted to \$39,000. This reserve is held to provide for possible future losses on disposal of Special Fund investments.

The principal of the Funds amounted to \$1.8 million at the year end, comprising \$1.2 million for the Special Scholarship Fund established by the anonymous gift, and \$600,000 for the Molson Prize Fund established by the gift from the Molson Foundation.

There was also at the year end a surplus of \$25,000 available for expenditure. Figures showing how this surplus is arrived at and showing the amount applicable to each of the two Funds is given at the top of page 21 of the report.

Below these figures, it is explained that income earned during the year was apportioned in the ratio that the principal and surplus of each Fund as at April 1, 1964, was of the total principal and surplus of the Funds.

It is also pointed out that the Council approved of assessing a \$2,000 fee for 1964-65 against the income of each of these Special Funds, to cover the indirect expenses of administering them. No such assessment had been made during the previous year.

That, Mr. Chairman, completes a rather quick review of the 1965 long form report. There are a few minutes to go. After the questions are exhausted, I would like to pursue this recommendation of the Committee a little further, if there is time.

The CHAIRMAN: Are there any more questions from any of the members of the Committee? Just before we leave this point, I think we should explain the position of the Public Accounts Committee.

I think our purpose is to study your financial statement and to be assured that the moneys that are entrusted to you are well and carefully spent and that there is no waste or extravagance, et cetera. For every dollar that is unwisely

spent, it simply means that there will be one dollar less to be spent or to be given for the purpose for which the Council was set up. I think that is the fundamental purpose of your Public Accounts Committee.

Also, it is to see that you are working and acting within the Act, as it was set up by Parliament. It would appear that this is being done, with the exception of this very point and recommendation that we have made on previous occasions, and to which Mr. Long would like to say a few further words.

Before Mr. Long proceeds, Mr. Bigg, do you have a question?

Mr. BIGG: On this question of these Colleges which have not taken up their grants, would it be possible to have some letter sent to them and ask them to make a presentation to us regarding how much further time they would like before they take it up, so that we could have a cut-off date and maybe a change in legislation to suit everybody?

The CHAIRMAN: Has this been done?

Mr. BOUCHER: No, it has not.

Mr. BIGG: I do not think we intend to carry it on for a hundred years.

Mr. BOUCHER: The institutions who are still entitled to payments were canvassed a little over a year ago and it has been drawn to their attention that it was the hope that this whole Fund would be exhausted at least within the 10-year period, that is, by 1967. And they have been urged to present their applications as soon as they could possibly do so.

It now looks as if almost all of it will be claimed by some time in 1967 but there then might be a few remaining amounts which are difficult to claim because institutions reach the point where they cannot fetch certain amounts that are really so small that they do not really fit into any programme. These have to be lumped together and re-distributed, so there may be a little cleaning up exercise towards the end of the operation. But it is now our hope that by some time next calendar year, this programme will be, to all intents and purposes, pretty well completed.

Mr. LONG: Mr. Chairman, it seems to me that this is one recommendation of many, made by the Committee, which has not been followed and members of the Committee do ask why, each time they see this.

Now here, I think, you have a case where the Canada Council is quite independent of the government. I do not think it can be regarded as a case on which the government just would not act, because I think if any action is going to be taken, it is going to have to be initiated by the Canada Council.

Now, this means that the thinking of the Committee and the thinking of the Canada Council are quite different as of now, and I wonder, when both are here, if perhaps this should not be sorted out, if possible?

Might I read what the recommendation is, as it appears in our report?

Mr. BIGG: What is the date of this report?

Mr. LONG: Well this is item No. 30 and it is in the appendix of our 1965 report. And it also appears under the same number in the follow-up report, in

which it is stated that nothing has been done to implement it. But you will find it on page 214 of our 1965 report. I quote:

The Committee was informed that in the interim the Council had proceeded to allocate and distribute funds resulting from profits realized and interest earned on the foregoing basis. The Committee regarded the approach as a reasonable one but, because of the conflicting views held as to whether the action taken is ultra vires of subsection 2(b) of section 17 of the Canada Council Act, recommended that steps be taken to seek amending legislation to provide clear authority for the Council to use the 1956 census and the hotchpot approach in the distribution of interest and profits in respect of the University Capital Grants Fund.

That is the end of the quotation.

Mr. BIGG: Can I have a word on the hotchpot approach? I am afraid I do not understand it.

Mr. LONG: I can explain it as I know it, unless a member of the Council would care to?

Mr. MARTINEAU: You go ahead and I will check.

Mr. LONG: I think perhaps this problem was not anticipated when the \$50 million was provided. It was probably assumed that this money would go out quickly and nobody gave any thought to it earning any interest. And, as I understand the hotchpot approach, it is that, in your accounting, you charge interest to those who have drawn the money, bringing that in as revenue of the fund to be distributed, so that all people are brought to a common time, which will be the time when the fund is finally all distributed. Am I right in that?

Mr. MARTINEAU: You are right.

Mr. LONG: This, I think, is it. But the clearest place where the Act seems to have been departed from is the reference to the latest census. Now, how can you refer to 1956 as the latest census after another census has taken place? This is probably the clearest point. There are really two points involved.

Mr. BIGG: Maybe I can get clear on the fact that these people who have withdrawn a certain amount of money should either be charged interest or should get any benefit from it. It seems to me that the Council, if they have to pay up any losses, have a right to any interest which may accrue due to delay.

Would not it simplify matters if the Council was allowed to make any profit out of this and not be responsible to anybody? If you have got a university built, I do not see why you should expect any added profits just because somebody else did not pick up their allotment. This is not a debt owed by the Crown to anybody, this is in the nature of any other grant. You are giving them something; they have nothing to claim. You could not come to the government and sue us for amounts to your credit, and that sort of thing, I am sure.

Mr. LONG: I think the Council has tried to be very fair. They tried to say, "Now, we know, for reasons beyond your control, you could not take this money up right away. We feel that you should be the one to benefit from any income that has come in in the meantime." I think they have tried to be fair with all the institutions.

Mr. BIGG: I am sure that if the University of Toronto, for instance, took up all their grant ten years ago, they would not be expecting their accrued interest from the Fund now, would they?

Mr. MARTINEAU: That is the point.

Mr. BOUCHER: That is our position.

Mr. LONG: We think the law says, that they would be entitled to it. We are not saying that that is right. And the Committee recommendation was that the law be amended to remove any question about it.

Mr. BALDWIN: I remember this has been the subject of four meetings between the Council and the members of the Committee, at which the Chairman of the Committee and Mr. Henderson confronted each other in a very friendly way and agreed to disagree on this.

As I recall it, originally Mr. Marcel Faribault presented in a very forceful and eloquent way here, the views of the Council. He said that there had been two legal opinions given to the Council, one of which corresponded with the views of the Auditor General, and the other of which was entirely different and that the Council, having in mind that they thought their duty was to make a fair and equitable distribution, chose the one legal opinion.

But this is what we often run up against in connection with our examination of the departmental expending and accounts. We find that, occasionally, departmental officials, in interpreting statutes, do not interpret them strictly but interpret them fairly. And there is a difference, from time to time. Consequently, Mr. Henderson has repeated on several occasions his exception to this.

Now, the Public Accounts committee on two occasions saw fit to agree with Mr. Henderson's view and finally, at the last meeting, this recommendation was made, which we felt was the fair way out. As I understand it, Mr. Martineau's views, as Chairman, is that the Council, having proceeded to distribute the money on one interpretation of the law, which I think is equitable, are not very happy about approaching the government and saying, "Now we want you to change the law so that the way in which we distribute this shall be considered as the proper legal way."

However, it may well be, when the time comes, as I personally hope it will, for the government to consider amending the Act by providing for an annual payment to the Endowment Fund of X millions of dollars, that they might, at that time, remove the word 'latest' from section 17 and put in the figures '1956', which will probably settle it all.

Mr. SCHREYER: Another aspect of the trust fund approach is, I gather, that not only is the fund earning interest on the amount not yet taken up by the few eligible institutions, but it is also charging interest to those institutions which have already taken up their funds.

Now, this latter part is very intriguing and it seems to me to be somewhat objectionable. Why should there be interest charged to those institutions?

Mr. MARTINEAU: This is just to balance the books. They are not charged interest, they are not asked for it at all. But in the books, according to this method, they are charged interest, while interest is accumulating for those who have not drawn. So that the same is happening on both sides.

Mr. BIGG: So you are freezing their portion as at 1956?

Mr. MARTINEAU: Yes.

Mr. BIGG: So that Mr. Baldwin's suggestion is that we go back to that date and say that for all intents and purposes respecting this amount, 1956 will be the division date and you will have an expiry date. We could even add a clause saying there will be an expiry on this fund in 1969 when, if you have not taken up your part, the accruing interest, plus principal, will go into the consolidated fund.

The CHAIRMAN: Mr. Schreyer's point was that that X university, that was given their funds, is not asked to send a cheque for X number of dollars of interest. It is just a book account.

Mr. BIGG: They just do not get any more.

Mr. MARTINEAU: It is just a book entry.

The CHAIRMAN: You would be in real trouble if you asked them to send you the cold cash.

Mr. MARTINEAU: The ways of accountants are sometimes rather difficult for laymen to understand.

Mr. BALDWIN: And the ways of lawyers.

Mr. LONG: Mr. Baldwin, you may recall that there have been references made, I think to two Prime Ministers, about this. Now, what I am trying to pin down here is that if a change like this is to be made in the Act, will it not be made only if the Canada Council take action to ask the government to do it?

Mr. BIGG: Well, they have done it already, surely, by inference. They have said they are not happy with the way things have been going, they are not sure that they have been given clear instructions and I, for one, do not feel bound by any other committee.

Nothing has been done, up till now, and we are stuck with the decision. Let us make it and say we want something done and, if it has not been done before, it is too bad.

Mr. LONG: I think if you will review the replies that were given by the Prime Ministers, you will find that they rather pushed it back to the Council, did they not? I do not have them before me, but that is my understanding.

Mr. MARTINEAU: I have them. We asked the two Prime Ministers about that and they both said, "Well, take advice and decide." So, that is what we have done. And may I read one of the replies from one of the Prime Ministers?

It seems to me, therefore, that the Council should obtain whatever legal or other advice it regards as necessary or desirable and then should make its own determination of the course it should pursue.

Mr. BALDWIN: Words of Solomon.

Mr. THOMAS (*Middlesex West*): Is the Committee examining the report of the Auditor General? I do not think we should dodge this issue and I would move that we defer this matter for further consideration until the Committee comes to make up its report.

The CHAIRMAN: Mr. Thomas, I would like to accept your motion but, in view of the time and the number of our members who have had to leave, we have not a quorum here to pass a motion.

Mr. BALDWIN: Am I correct in this, Mr. Chairman? Many of the things in which we do not come to a final adjudication now, will be brought up when we come to consider in camera what our decision is.

Mr. THOMAS (*Middlesex West*): This is not left?

The CHAIRMAN: No, it will not be left, Mr. Thomas.

Mr. THOMAS (*Middlesex West*): As long as I have that understanding.

Mr. LEBLANC: We will pick it up when we study the Auditor General's 1965 report, where it is at page 214. We had this marked at the beginning of this session as a matter that we must reconsider at this time.

The CHAIRMAN: It certainly will not be dropped and it will be followed, Mr. Thomas.

Well, gentlemen, we have been glad to have you with us this morning and you may be hearing from us later on, regarding this one point that we have left.

The meeting is adjourned.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

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LÉON-J. RAYMOND,
The Clerk of the House.

7
HOUSE OF COMMONS
First Session—Twenty-seventh Parliament
1966

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 8

THURSDAY, MAY 19, 1966

Public Accounts, Volumes I, II and III (1965)
Reports of the Auditor General to the House of Commons (1964 and 1965)

WITNESSES

Mr. A. M. Henderson, Auditor General of Canada; and Messrs. G. R. Long,
H. G. Crowley and D. A. Smith of the Auditor General's staff.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,	Mr. Gendron,	Mr. Stafford,
Mr. Ballard,	Mr. Leblanc (<i>Laurier</i>),	Mr. Tardif,
Mr. Bigg,	Mr. McLean (<i>Charlotte</i>),	Mr. Thomas (<i>Maison-</i>
Mr. Cameron	Mr. Morison,	<i>neuve-Rosemont</i>),
(<i>High Park</i>),	Mr. Muir (<i>Lisgar</i>),	Mr. Thomas (<i>Middlesex</i>
Mr. Dionne,	Mr. Noble,	<i>West</i>),
Mr. Flemming,	Mr. Racine,	Mr. Tremblay,
Mr. Forbes,	Mr. Schreyer,	Mr. Tucker,
		Mr. Winch—(24).

(Quorum 10)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, May 19, 1966.
(10)

The Standing Committee on Public Accounts met this day at 11.10 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Baldwin, Ballard, Bigg, Dionne, Forbes, Gendron, Hales, Leblanc (Laurier), Lefebvre, Noble, Schreyer, Tardif, Thomas (Middlesex West), Tucker, Winch (15).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; and Messrs. Long, Crowley, Douglas, Smith, Rider, Laroche, Buzza and Hayes of the Auditor General's staff.

The Chairman invited Mr. Henderson to make a statement on his visit to the Supreme Audit Institution.

On a motion of Mr. Bigg, seconded by Mr. Baldwin the Committee agreed to print a List of Remissions of Postage Charges under Section 22 of the Financial Administration Act (*See Appendix 3*) and list of government agencies and departments covered by the Public Officers Guarantee Account (*See Appendix 4*).

Following questioning of Messrs. Henderson and Long on the remnants of the 1964 Auditor General Report, the Committee discussed the scheduling of witnesses for future meetings when the 1965 Report will be considered. The Committee instructed the Clerk to arrange the presence of representatives from the Post Office Department for Wednesday, May 25, 1966 and the Public Works Department for Thursday May 26.

The Chairman adjourned the meeting at 12.55 p.m. to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

THURSDAY, May 19, 1966.

● (11.09 a.m.)

The CHAIRMAN: Gentlemen, we have a quorum.

We welcome back with us this morning, Mr. Henderson, who has just returned from a very interesting and, no doubt, productive trip and meeting at the Governing Board of the International Secretariat of the Supreme Audit Institutions which he attended as Canada's auditor and where he was associated with auditors from all parts of the world. I think it would be nice to have a word first from Mr. Henderson on his return.

Then we will have Mr. Long proceed with a few items from the 1964 report before we go into the 1965 Auditor General's report.

Mr. WINCH: We welcome Mr. Henderson back. You have asked him to say a few words. I would be pleased if he would also say whether or not, as a result of this most important meeting of auditors general—perhaps not beyond a few words now—but he may be able to advise our Committee, at a special meeting perhaps, on how the procedures followed by other auditors general might apply to our own procedures?

Mr. A. M. HENDERSON (*Auditor General*): Thank you, Mr. Chairman and members. It is indeed true that I arrived back about midnight last night after the usual hurly-burly of aeroplanes.

I had an extremely interesting series of meetings at this first meeting of the Governing Board of the International Secretariat of Supreme Audit Institutions, held in Vienna, which, with the 12 countries, form the Governing Board, representing an organization of about 80 countries around the world.

There were the 12 auditors general there, and we discussed the basis on which such an organization as this could work and what its constitution and by-laws should be. I had been invited to serve, as I told you, acting on behalf of the British Commonwealth. I was, therefore, in effect, the only English-speaking person present; the meeting was run in about five languages and we held our meetings in the board room of the International Atomic Energy Agency which is one of the specialized agencies of the United Nations—

Mr. WINCH: Did you meet underneath the atomic energy room?

Mr. HENDERSON: They are the only people there who have the facilities to provide the translation—

Mr. WINCH: I was just thinking it is strange—atomic energy and auditors general.

Mr. HENDERSON: There were some very interesting exchanges on practices and procedures and items of common interest, and we are by way of holding a

watching brief on it to determine if it is worthwhile to Canada and also what we can contribute particularly in the area of helping less fortunate countries.

I have a responsibility to advise the other members of the Commonwealth on what our attitude should be because we in the Commonwealth, as you know, all operate from the same basic constitution.

After the Vienna meeting I spent the first two days of this week with Sir Edmund Compton, the Comptroller and Auditor General of the United Kingdom in Westminster, who is preparing for a meeting of the Commonwealth auditors general in September. I had this meeting in order that we might determine on what basis we could discuss participation and what recommendations we could make to them.

Unfortunately I did not have an opportunity to see Mr. Arnold Smith, of the Commonwealth Secretariat. He is equally interested in this, because an organization of this size is really very much a miniature United Nations. They meet every three years, and this Board of Governors is the governing body. The Austrian Government provides the secretariat and this is the reason we meet in Vienna. They have voted funds to provide a permanent institution. Their parliament has appropriated something like \$70 thousand or \$80 thousand for the purpose of carrying out research and functioning as a headquarters. This is the second meeting they have called in Vienna.

It was altogether very productive. I may say that in Westminster I was privileged to be taken, Mr. Chairman, into the Public Accounts Committee of the British House of Commons—which is, of course, held in camera—just for a brief look at the method of functioning; I had an opportunity to listen to quite a lengthy debate in the House of Commons when various matters like the shipping dispute were under discussion; and also to visit with a number of people in the office of the Comptroller and Auditor General in London.

It was an excellent trip and I would like to thank you again for permitting me to absent myself for the three meetings which were involved, Mr. Chairman. I hope that everything went along to your satisfaction. Mr. Long has told me that you—

Mr. WINCH: Just one question. Was there anything decided which, at a future meeting, you think should be conveyed to this Committee, on decisions made that may assist us in our work in this Committee?

Mr. HENDERSON: Toward improving the way in which we do our work? Is that what you have in mind?

Mr. WINCH: Yes.

Mr. HENDERSON: Not a great deal, Mr. Winch, to be perfectly frank. The British Committee operates in camera; we do not. I must say that I think perhaps we make greater progress by our method of operation. They, of course, print all their testimony, but it comes out later and perhaps, if I may be pardoned for saying so, it makes rather dry reading when you go back over months and months of discussion. On the other hand, we seem to work from meeting to meeting. It represents an interesting comparison. They bring in more departmental witnesses to their committee hearings than we do; almost every meeting consists of three or four departmental people present. They move at a slower pace and they hold more meetings. Of course, perhaps they are able to have a greater exchange because their sittings are in camera.

● (11.15 a.m.)

The CHAIRMAN: Do they sit while the House is sitting?

Mr. HENDERSON: I understand not; at least that point was not evident when I was there. They seem to meet about four days a week at the present time.

Mr. LEFEBVRE: I am very glad that you were able to have this trip Mr. Henderson, and as this is the Public Accounts Committee and you are the Auditor General, I hope that your expense account was well made out so that we will not run across it in next year's report.

Mr. HENDERSON: I hope so, too.

Mr. BALDWIN: I recall that we had some discussion at the last session as to who audits the Auditor General.

I have a number of comments to make which touch on this subject, but I am going to leave them until we get into the beginning of the 1965 report which I think is the appropriate place. I am glad Mr. Winch brought this up because it forms a foundation for the comments I want to make, Mr. Chairman. So I simply want to file a caveat with respect to matters that I do want to bring up which result from the questions I asked earlier.

The CHAIRMAN: All right, Mr. Baldwin. Mr. Henderson, you spoke about their testimony being published later on. I do not think it can be any later than ours at the present time and at this point I would like to explain to the committee why we are six meetings behind in the printed copies of our sessions. I really have no explanation other than our good clerk, Mr. Thomas, has told me that they have been proof read and they are at the printers and we should have them before this week is out at least some of them anyway.

Mr. LEFEBVRE: Does that apply also to the French copies, Mr. Chairman?

The CHAIRMAN: I am afraid those will be a bit behind, Mr. Lefebvre, from what Mr. Thomas tells me. I do not know where the break down has been. We used to get our written copies almost for the next meeting. We are hoping that this will be corrected.

Now, Mr. Long, I think you have possibly one or two things to answer which were brought about by questions at a previous meeting.

Mr. G. R. LONG (*Assistant Auditor General*): Thank you, Mr. Chairman. I have two answers here that were requested at previous meetings.

At the meeting of May 5 we were asked to provide a list of the twenty remissions made by the Governor in Council in connection with postage charges. There are actually 18 and I have a list of them here which I will pass to the Chairman. You may wish to have this printed and attached to today's proceedings.

The CHAIRMAN: Would someone like to move that this be printed as an appendix to our proceedings? Before we pass on, I would draw your attention to this when you receive a copy of it, that there is a remission on here for \$10 thousand and some odd dollars, which is a very large amount. I am sure you will want to do a little further investigating of that. The next highest one is \$2,698.

Mr. WINCH: May I ask, Mr. Chairman, whether you will make the necessary inquiries to have somebody appear and explain that \$10 thousand item?

The CHAIRMAN: I think we will follow up with this just as soon as we table the other list, or would you like to do it now?

Mr. LONG: Probably it would be just as well to give a brief explanation now.

The CHAIRMAN: Right. Well, it is not in our report at any place, is it? This has been tabled. I am sorry that we do not have copies for everybody this morning, but I think we can ask Mr. Crowley to explain this one remission, Meredith Publishing Company of Des Moines, Iowa, for \$10,040.66. That is the largest one.

Mr. H. G. CROWLEY (*Audit Director, Auditor General's Office*): This organization gets out the publication known as *Better Homes and Gardens* and, as I mentioned at the meeting when this matter came up, it is a matter of the publication not complying with the rules and regulations of the Post Office Department regarding publications. To be specific in this case, the October and November 1964 issues contained advertising inserts which were not allowed for in the paging sequence in conformity with the requirements of the postal regulations. Mr. Biggs mentioned, too, that it is the custom of some of these publishers to place inserts in the publication. However, rules of the Post Office Department at that time required that they be page numbered, that they carry the name of the publication and that they be inserted in proper sequence.

This particular publication, *Better Homes and Gardens*, for these two months, apparently failed to meet this requirement. That meant that they would have to pay a much higher rate and the higher rate resulted in an extra assessment of something like \$10,040.66. The Post Office Department, for a number of reasons, felt that they should not penalize this particular company at the time so they asked for the remission.

The CHAIRMAN: Are there any questions of Mr. Crowley?

Mr. WINCH: I have one question. This is a very well known publication; it has been published to my knowledge for a great many years. Can you explain why they would make that kind of mistake? In view of the fact that they have been publishing for years with our advertising, why, after all those years, of knowledge, should they be recompensed?

Mr. CROWLEY: It is an American publication, but apparently for the first time this type of insert was being placed in the Canadian edition. There was another reason, too, for the department being rather lenient. This happened in October and November 1964; in December 1964 they relaxed a number of these sections of the regulations and, I think, because of the mistake made by the company and because the Post Office Department were relaxing their regulations, they felt that the company should be dealt with leniently.

Mr. WINCH: If my knowledge is correct, and I hope it is, our Canadian laws and regulations are such that everything must be in the magazine itself. I do not know of anything on an insert basis. An insert basis is not the same as the actual publication. Am I correct in that?

Mr. CROWLEY: Mr. Winch, the regulations in force at the time the infraction took place contain these clauses: The advertising inserts had to be, first, permanently attached when enclosed in bound publications; 2. bear the date of issue and name of the publication on each page when enclosed in unbound publications, 3. the page must be numbered in regular sequence with the rest of the publication or allowance made for the insert in the regular paging sequence, and 4. they must not constitute a sample of the advertised product.

Therefore, it practically meant that the insert had to be part and parcel of the publication. They have now relaxed this provision and the regulations are not so stringent.

Mr. WINCH: Might I ask one final question on this because I think it has an important bearing? It is an American publication and for a long time it was distributed and sold in Canada. They know our rules and regulations and our laws. What was the basic reason, with a long established publication such as this, for deciding that we should reimburse them in the amount of over \$10 thousand?

Mr. CROWLEY: I think, Mr. Chairman, what really happened here is that this matter of inserts is something of recent origin. In other words, I believe it is only within the last two or three years that newspapers and publications have taken advantage or have sort of become accustomed to this matter of inserts. As a matter of fact, I think, if we look at our magazines lately we will see that they are filled with them, but this was not the case two or three years ago. I do not know, why, but for some reason this publication was not acquainted with our Canadian postal regulations with respect to this matter.

Mr. WINCH: May I ask Mr. Henderson or Mr. Long to give his view on this matter because it has been brought to our attention by your report?

Mr. HENDERSON: Perhaps Mr. Long could speak with a special knowledge of this, Mr. Winch, if I might ask him to.

Mr. LONG: I think Mr. Crowley has given most of the specific information that we have. I would point out, however, that American publications mailed in the United States to Canadian subscribers have to be handled by the Canadian Post Office. I am not positive that this is the case here, but it could be that this publication only started trucking to Canada to mail and thereby came under our postal laws. I do not think we know whether that is the case, but most American publications are put in the post office in the United States. However, some of them found it advantageous to truck their publications to Toronto or to some other centre on this side of the border in which case we get the postage. We do not receive any postage in the case of mailings in the United States.

Mr. WINCH: Mr. Long, can I ask you then why you brought this to our attention through the report? What did you want us to correct?

Mr. LONG: We did not bring this up in the report, Mr. Winch. There was a request that the remissions be reported to this Committee. We did not single this remission out for any comment.

Mr. TARDIF: Is it not the responsibility of the people using our mail to find out what the regulations are?

Mr. WINCH: That is my point. Why should we pay \$10 thousand if, in the United States, they do not know our regulations and then we rebate \$10 thousand? Why should we be responsible for paying out \$10 thousand because a publication in the United States did not know or did not follow our Canadian regulations?

Mr. HENDERSON: Mr. Chairman, if I may just interject here. These are the 18 cases in this year which you requested to have listed. In this particular case, as in the others which you will see listed—and some are fairly large, although the next one is \$2,698 to Time in Chicago—the Governor in Council is permitted by law to grant such remissions and the department, presumably after a great deal of discussion with the publishers and a review of the circumstances—we do not have their files here and are not able to speak from an intimate knowledge of that—would make a request to the Governor in Council for these remissions to be granted.

Mr. TARDIF: You have not answered the question I asked. I asked are they not responsible for finding out what the regulations are?

Mr. HENDERSON: My answer to your question is that the post office officials should be invited to come here and answer that from their files.

Mr. TARDIF: I have another question. You have listed 18 cases like that. How many more cases are there, and what is the total amount?

Mr. CROWLEY: The total amount is \$20,128.46.

Mr. BIGG: Is this not a case where we are not giving them back money, but we are not collecting penalties? Do they actually pay the money in and then we give it back to them?

Mr. HENDERSON: That is right. We did get some postage, Mr. Bigg, which we might not have received at all. If they had mailed in the United States we would not have received any postage.

Mr. TARDIF: No, but that is a third class matter, no doubt? The more they mail at second or third class rates, the more we lose. So this is no advantage.

Mr. LONG: But we would have to deliver them anyway. If they are mailed in the United States they come in under the postal convention and are delivered; we would do all the work.

Mr. TARDIF: So with this method we lose less?

Mr. LONG: Yes.

● (11.30 p.m.)

Mr. THOMAS (*Middlesex West*): Mr. Chairman, I just wanted to ask who is responsible actually for authorizing these remissions?

Mr. HENDERSON: It would be the Governor in Council on the recommendation of the Post Office Department.

Mr. THOMAS (*Middlesex West*): This is quite within the law?

Mr. HENDERSON: Oh, yes; we would have no criticism of that, Mr. Thomas. The underlying reasons would, and should be given, I think, by officials of the Post Office Department. We do not have their files here.

Mr. WINCH: If we want to follow through on your suggestion and ask the Post Office officials to explain.

The CHAIRMAN: We will let Mr. Thomas finish his question.

Mr. WINCH: I am sorry, I thought he was.

Mr. THOMAS (*Middlesex West*): Then, really any action or criticism that we could offer would be criticism of the policy being followed by the Post Office Department, and under those circumstances we should offer them an opportunity to give us an explanation.

Mr. HENDERSON: That is right.

Mr. THOMAS (*Middlesex West*): They must have had good sound reasons for doing it.

The CHAIRMAN: Would that be the wish of the Committee?

Mr. HENDERSON: They could be invited to appear as a witness and to answer to this, or alternatively they could be invited to file a statement with the Committee on this specific case giving their reasons, if you wish to have it handled that way.

Mr. WINCH: I am not concerned with the \$10 thousand but I am concerned with the principle involved.

The CHAIRMAN: If that would be the wish of the Committee, I would say that we have a witness here at the earliest opportunity to explain these remissions in general and particularly this large one that we mentioned. But just so that we might be a little better versed and able to ask questions of the witness, what about a company in Canada that gets a remission?? We have been talking about an American. The next largest one in Canada is the Quebec Pension Board—a remission of \$1,300 odd dollars, and another one is the Sun Publishing in Edmonton, Alberta. These are Canadian companies.

Mr. CROWLEY: What happened, Mr. Chairman, with regard to the Sun Publishing Company was that when the department amended its regulations, the Sun Publishing Company failed to comply even with the amended regulations. In other words, ignorance of the law again. So they were able to put up a case to the Post Office Department and they obtained a remission accordingly. In other words, they pleaded ignorance of the regulations. Why they did that or why they did not know the regulations, well, I do not know.

In the case of the Quebec board, apparently this was a matter in connection with pensions and they were under the assumption that they had the right to free postage. They apparently sent copies of this particular circular out and did not affix the proper postage, so that the result was that they were subject to double the postage for each circular delivered. What the department did in this case was to remit the extra assessment. We collected the proper postage but we remitted the double rate due to the penalty.

Mr. WINCH: Mr. Chairman, I can understand this situation in Quebec, but, however, you and I, sir, have been in Parliament long enough to know that we are told so often that ignorance of the law is no excuse. Now, when you have a publishing company—I understand it is the Sun from Alberta, is it not—I think we should have an explanation of it. Ignorance of the law, we have been told, is no excuse, with a company like that.

The CHAIRMAN: You save your questions for the witness who will be before us shortly.

Mr. LONG: The second bit of information, Mr. Chairman; at the meeting on May 12, Mr. Schreyer made an inquiry about the public officers guarantee account as to whether it covered employees of crown corporations. The answer is that the public officers guarantee account covers all departments except the Post Office Department which has its own guarantee fund and the annuity representatives of the Department of Labour who are covered by fidelity bonds. The public officers guarantee account also covers employees of the custodian of enemy property and all crown corporations except the Canadian National Railways, the Canadian National West Indies Steamships Limited, the Central Mortgage and Housing Corporation, Air-Canada and the Canadian Broadcasting Corporation.

The CHAIRMAN: Will this be printed as an appendix? Agreed? You will have stencilled copies of both of these sent to your offices this afternoon so that you can study them further.

Now, Mr. Long, you can proceed with the Non-Productive Payments Section on page 168 of the 1964 Auditor General's Report.

NON-PRODUCTIVE PAYMENTS NOTED IN THE AUDIT FOR THE FISCAL YEAR ENDED MARCH 31, 1964

(See paragraph 94)

1. Settlement arising out of the dismissal of employee without the authority of the governor in council.—In 1956 an auditor employed by the Unemployment Insurance Commission was notified of his dismissal because of irregularities in his travelling expense accounts. His appeal against dismissal was unsuccessful.

It was a provision of section 52 of the Civil Service Act, R.S. 1952 (since repealed) that no deputy head, officer, clerk or employee "whose appointment is of a permanent nature, shall be removed from office except by authority of the Governor in Council". In this case the Unemployment Insurance Commission neglected to obtain this authorization. Counsel for the dismissed auditor made representations to the Commission claiming damages for illegal dismissal but the claim was rejected.

In May 1962 the dismissed employee submitted a Petition of Right in the Exchequer Court of Canada requesting an order declaring him to be still an employee of Her Majesty and entitled to such pay and allowances as had accrued since July 5, 1956 (the effective date of his dismissal), reimbursement for loss of income of \$22,675, damages of \$25,000 for unlawful interference with his employment with Her Majesty, reimbursement of his costs of and incidental to the petition, and such further and other relief as the Court deemed just.

After duly considering the merits of the claim, the Department of Justice recommended that it would be in the Commission's interests to effect an out of court settlement with the petitioner. With the concurrence of the Commission and upon the dismissed employee submitting a

formal release and discharge, payments of \$4,000 to him and \$500 to his solicitors were made in final settlement in February 1964.

Mr. LONG: Mr. Chairman, the members will recall that at the May 12th meeting I gave a summary of the non-productive payments listed in this appendix for 1964 by departments, showing the number in each case and the amount involved. I have made brief notes on each one of these and if it meets with your approval I will run through them quickly and you could discuss any that you have questions on.

The first one is the Unemployment Insurance Commission which dismissed an employee in 1956, but neglected to obtain the necessary approval of the Governor in Council as required by law. Six years later, in May, 1962, the dismissed employee took action in the Exchequer Court seeking to collect something in excess of \$47,000.

On the recommendation of the Department of Justice an out of court settlement was effected with payments totalling \$4,500 being made by the commission.

Mr. TARDIF: That means that this fellow got paid because he was fired in an irregular manner for having been dishonest.

Mr. WINCH: Mr. Chairman, a number of us are a bit lost here. Which one is that?

The CHAIRMAN: The 1964 Auditor General's Report, on page 168, number 1.

Mr. WINCH: Oh, page 168. I thought you said page 160. A number of us here were trying to follow page 160.

The CHAIRMAN: All set, now, everybody? It is Item number 1, the Unemployment Insurance Commission.

Mr. BIGG: Can we have any detail on the irregularities of his expense account?

Mr. LONG: We do not have this here. I would imagine they were expenses he had not actually incurred.

Mr. LEFEBVRE: That is what you might call a padded expense account?

Mr. LONG: It was serious enough that the commission considered that he should be fired, but they neglected to take that final step of obtaining approval.

Mr. BIGG: It was just the technical point that they did not do.

The CHAIRMAN: I wonder how we should handle these as we go along. What are your recommendations here, Mr. Henderson? You have brought these to our attention; we are getting the high spots here now; do we just take it and leave it or—

Mr. HENDERSON: No, it is important, Mr. Chairman, that the members realize that each year these non-productive payments are listed in the report. The total cost of these has, I think, been given to you by Mr. Long. There are 35 cases here and there is \$1,247,400 worth of public money involved. They represent cases in which no value was received for money, and it is in accordance with the instructions of this Committee over the years that details are furnished in the report in this manner.

In 1964, there was a good discussion in this Committee about the cases, and I would remind you that in your sixth report, 1964, to the House you referred to the fact that you had questioned deputy ministers of three of the largest departments, Public Works, National Defence and Transport, firstly as to the causes and reasons for many of the larger losses, and you also pointed out that a number of the losses arose from circumstances beyond the control of the department concerned; for example, the role of the Department of Public Works as a service department. You gave the opinion that the majority of these losses could be attributed either to failure to exercise normal commercial prudence in entering into contractual obligations in the first place, or to lack of effective departmental specifications, organization or co-ordination. You also stated that you believed that failure by departments to pinpoint blame for many such losses and to take corrective action accordingly was a contributing factor.

In my opinion in your diagnosis at that time, you put your finger right on the root cause. This is still with us, and when you reach my 1965 report you will have probably noticed the size of these non-productive expenditures which, as I said, for the previous year totalled 35 cases amounting to rather more than \$1.2 million. In 1965 I listed 37 cases and the cost of these was \$22,737,000. We take them as they come—the year in which we find them—they are the cases we come across. How many others there are, I cannot say. We do a test audit only, but these are the ones we encounter in the course of our work and after sifting them through, are the ones, which in my opinion, should be brought to the attention of the House.

Mr. TARDIF: Mr. Chairman, this item number 1 is a little different, because this is a premium on dishonesty.

The CHAIRMAN: That is a good way to put it.

Mr. TARDIF: It may be carelessness or may be people who do not know their business, and are not intentional but this is actually a premium on dishonesty.

Mr. BIGG: I think he should have received one dollar.

Mr. TARDIF: I think he should have been fired.

Mr. BIGG: And tried again for embezzlement.

Mr. WINCH: Mr. Chairman, I am very happy that Mr. Henderson has spoken the way he has on this matter. I remember we had a really full discussion in the Public Accounts Committee in 1964 on this very matter; it was also discussed in 1965, but not to the same fulsome extent. However in view of the fact that there was such a lengthy and concerned discussion in our Committee in 1964, and no corrective action has been taken on either the 1964 report or 1965 report without going into detail on all of the reports made to us now by the Auditor General, I wonder, Mr. Chairman, if because of the importance of this matter, to which apparently no attention is being paid, even although this Committee has reported, whether or not you, sir, will take under consideration on both the 1964 and 1965 reports on this matter, calling before us the head man in the Treasury Board, because I believe that everything must go through the Treasury Board, so that we can get a down to earth discussion on this matter as to what is going to happen.

Now Mr. Henderson is the right man to call the head of the Treasury Board.

Mr. HENDERSON: If I may say so, I think that while the Secretary of the Treasury Board, Dr. Davidson, is himself very concerned about the occurrence of such losses, they take place in departments under circumstances over which he has little if any actual control. They are incurred at source and, therefore, the deputy ministers, for the most part, are the people who must take the responsibility. You will remember your discussion here with the Deputy Minister of Public Works. It would be my suggestion that, if you are agreeable, Mr. Long has some brief notes here on each of these and he might be invited to give them to the Committee and you might care to jot down those on which you would like to hear a witness, and when we are through let us see how many witnesses you would want to call. You will be having some of these deputy ministers present on other matters. You will see the type. Mr. Tardif has categorized this first one. They are not all like this—projects abandoned, plans never used; they arise from a variety of causes. Would it not be helpful if he gave you a quick run-down of what was in the 1964 report? We will be doing it again in the 1965 report.

Mr. WINCH: This is the point I am after. I remember 1964 and 1965; now I go over this and go all through them and there are additional costs owing to delay, a change of plans and even buying things and then not using property in buildings.

The CHAIRMAN: I have a suggestion to make but before I do that Mr. Leblanc has a question.

(Translation)

Mr. LEBLANC: Mr. Chairman, errors of judgment or errors of preparation, or transcription errors do not necessarily occur repeatedly from one year to the other? We are not necessarily dealing with the same mistakes in 1964 and again in 1965. These are cases which happen once and are not repeated later on. The principle is the same, especially for contracts where errors have been made. Drafting errors can be made the next year, but they do not apply necessarily to the same department, the same building or the same project.

● (11.47 a.m.)

(English)

Mr. TARDIF: Mr. Chairman, in connection with what Mr. Leblanc just said, for instance, in clause 3 there is a contract where the specifications were followed by the contractor but the finished project did not do the work it was expected to do. Who was responsible in the department to give the go-ahead on this matter before finding out that this was an American specification which had never been used in the United States? I would imagine the first question that somebody, who is responsible for this type of decision, would ask himself would be: "Was this ever used?", or, "is there a finished product that was made in the United States?" However, \$54,000 plus \$28,000 of experimenting were expended on this product, on specifications and designs that came from the United States which had never been manufactured in the United States and nobody ever thought of making inquiries. Did he get a promotion? I guess he did.

The CHAIRMAN: Mr. Tardif, I appreciate your remarks. With regard to Mr. Henderson's report that under the British system they have witnesses with them at practically every meeting, I would think that in going through these non-productive items we should have it scheduled so that we have witnesses from the Department before us on the day we discuss all the items concerning the Department of Public Works. Then we will be in a position to have the questions that you have asked answered by the officials. When we are finished with that department we can line up another department, and so on, and have a witness at practically every meeting.

Now, in order for us to be the cross-examiners we are going to have to do some homework so that we can ask intelligent questions of the witnesses. To make ourselves more conversant with the matter I would suggest that we run through these items now with Mr. Long. I would also suggest that you make notes bearing in mind that we are going to have the witnesses of these departments before us, and ask a few questions of Mr. Long as he goes along which will help to formulate your questions for the witnesses who will be here later on.

Mr. WINCH: Mr. Chairman, you have made an excellent suggestion, but I would also like to add that I hope at some time we will call Dr. Davidson of the Treasury Board before us. In the last analysis the Treasury Board has to pass on these items, and if we have him here we can get the broad picture and ask the Secretary of the Treasury Board how these things happen and if there is any way, from his point of view, that we can prevent them from happening.

Mr. TARDIF: I am glad you suggested, Mr. Chairman, that we get prepared to ask intelligent questions. I am sure the members of the Committee are going to follow that advice very religiously. However, in looking at some of the problems submitted here by the Auditor General, I do not think that is a major job.

Mr. BALDWIN: Mr. Chairman, if this is the policy then may I ask Mr. Long a question on the first item, which might have some effect on who we are going to call before us. What I see about the first item is that there were two errors made. The first error was the neglect of the Unemployment Insurance Commission to obtain the authorization required under section 52 of the Civil Service Act. That certainly requires an explanation but you go beyond this and say after the action has been commenced under the Petition of Rights, then the Department of Justice recommended—and here I point out, Mr. Chairman, the significance of this statement—that it would be in the commission's interest. Now, it did not say that there was any legal liability according to the report. Mr. Long may be able to fill me in on that. Did the Department of Justice recommend a settlement because there was some doubt as to legal responsibility?

I point this out because it is a general principle that any employee of a permanent nature, whether in the Public Service covered by the Civil Service Act or in private business, cannot be improperly dismissed without giving rise to cause of action. However, he is dismissed for cause, and certainly "cause" includes irregularities in regard to travelling expenses, he is not entitled to any claim for wages that he would have lost because of the termination of the

employment. I am sure the intention of the Civil Service Act was to give effect to the same principles in the Public Service as apply in industry.

Therefore, you have two errors here, namely a failure to obtain the necessary authorization and an apparent opinion by the Department of Justice which, as far as I can see, was certainly not justified by the facts. There is an official in each department whom I would like to question, unless either Mr. Henderson or Mr. Long has something to indicate that the Department of Justice recommended that it would be not only in the commission's interest to settle—and I can see it would be in their interest to settle because they made an error—but it would be a sound decision on behalf of the government to make a settlement because there might be some legal responsibility. No lawyer should advise a settlement unless he feels there is a fair chance the case is going to be lost.

Mr. LONG: I think, Mr. Baldwin, this man would contend that he was not dismissed. The law requires that the Governor in Council do the dismissing. The Governor in Council did not act. Therefore, he is claiming for all the salary that he would have received in this period. I suspect that Justice thought that rather than spend money fighting this case in court, in which event the man may have had a point because he had not legally been dismissed, it was better to give him a certain amount.

Mr. BALDWIN: That is a very interesting point because if the Civil Service Act is now in such a state that an employee, no matter how grievous his irregularity may be and no matter if he stole half a million dollars, cannot be dismissed without getting an authorization, then there is something wrong with the law.

Mr. LONG: He can be suspended; the deputy minister can suspend him and the ultimate decision with regard to that suspension determines whether he is paid or not.

Mr. TARDIF: I hope when they do that they keep the combination of the safe.

Mr. SCHREYER: Mr. Chairman, I think before we are in a position to question the advice given by the Department of Justice, we would have to get quite a bit more information on this matter. After all, one could question the degree of the irregularity involved, the blatancy of it, what was the magnitude of the irregularity, had the man attempted this before and was he warned by his superiors in the commission. All these things add up to the basis upon which the legal advisers of the Department of Justice made their recommendation.

Mr. LONG: Mr. Schreyer, you are now looking behind the dismissal; that has all been decided. He had done something which he should not have done and the penalty was dismissal.

Mr. TARDIF: Besides, can there be a degree of dishonesty?

Mr. BIGG: It seems to me that if he did anything which was serious enough to lose permanent employment there could have been charges laid. We are talking here about locking the door. Well, surely if he has committed a crime serious enough to lose permanent employment, with all the attendant loss of seniority and everything, else then charges should be laid and the Crown would

be protected from this type of blackmail; that is all I can call this. They said, "You made a slight error in the regulations", and he asked for \$47,675. If he thought that his very minor fault was only requiring a reprimand, then this should have been cleaned up right from the start and we would not have had all this difficulty. I would say that in future we should, in some way, tighten up on the policies to say that this matter, where a man loses his employment over dishonesty, should be cleared up right at the start. A more lenient judge might have given him half of what he asked for.

Mr. WINCH: Mr. Bigg has raised the very point I was coming to. It says here "because of irregularities in his travelling expense account". I gather this means that he falsified his expense account and received money to which he was not entitled. I want to ask, in support of Mr. Bigg, that if this means that he falsified his expense account and received money to which he was not entitled, why was no charge laid? He stole money from the taxpayer's account.

Mr. BIGG: I am not accusing this man of theft. I am saying that we should have cleaned it up.

Mr. WINCH: No, I am asking if this is what it means.

Mr. BIGG: Because in an expense account he might have thought, for instance, that he was entitled to \$8 per night regardless of whether he stayed at a hotel or not, and so forth just a blanket account. Through a misunderstanding in regulations, he may have put in a blanket expense account and perhaps the local auditor found out that he had been over paid \$1,200 over a period of years. He said, "Well, I took that because I thought it was all right". Now, these mistakes can be made. That is the kind of thing I would like to see cleaned up.

Mr. FORBES: Mr. Chairman, is Mr. Bigg indicating that these government employees do not have to provide a voucher for their expense accounts?

Mr. BIGG: Not for everything, no.

Mr. HENDERSON: I would point out to Mr. Bigg that when we use the word "irregularity" it means just that. It is not lack of comprehension with regard to how to make an expense account out; it is padding an expense account or doing something which is contrary to what a man should submit. I cannot say that as a definite statement without looking at the file, but when we use the word "irregularities" here, that is what they are. Regardless of whether it is padding or some other type of failure to comply, or a deception of some kind, that is what has crept in here. The department dismissed him and that explains it.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, this looks to me like a case that we could have well passed up; I do not see where we can do anything about it. The Civil Service Act was apparently disregarded by the officials concerned. It was possibly done through an oversight. The Justice Department used their best judgment in recommending a settlement and the chances are that the case was so involved that it could not be settled without long extensive litigation. Now that the thing is done, it seems to me that we could probably well pass up this item number 1, except that it was information in passing.

Mr. SCHREYER: Mr. Chairman, does section 52 of the act give this protection to employees who have been charged and convicted of defalcation, or does it just apply to a case where dismissal is attempted without charges being laid?

Mr. LONG: Mr. Schreyer, this section has since been repealed and replaced by another section. I think I am right in saying that you still require the approval of the Governor in Council for any dismissal.

An Hon. MEMBER: Leading to a conviction?

Mr. LONG: I think this would have to be dealt with before you obtained a conviction. You have a big time lag in such cases. I might suggest to members that you now have a bill before you in the House, namely the Public Service Commission Act, and I believe there is a section in it with respect to dismissal. This will be the current thing. The act which we referred to has been changed and the section which changed it is in turn now in the process of being changed.

Mr. SCHREYER: I will not pursue it at this time because it is not completely germane.

The CHAIRMAN: In order to have a little continuity here I would suggest that at the next meeting we have the witnesses of the Post Office Department before us and we have the remissions part to discuss first. Would it be agreeable if Mr. Long just picks out the non-productive items that have to do with the Post Office only and then we will be prepared for the Post Office people at our next meeting?

Mr. LONG: The only trouble there, Mr. Chairman, is that there are none concerning the Post Office in 1964.

The CHAIRMAN: Are there some in 1965?

Mr. LONG: I do not think so.

Mr. HENDERSON: The Post Office is a revenue department, not a spending department.

The CHAIRMAN: In that case we can pick another department. We do not have to have the Post Office Department at the next meeting. I just picked that because of the statement on remissions.

Mr. LONG: The next eight remissions in order are all National Defence.

Mr. HENDERSON: You have a number of problems, Mr. Chairman, under the non-productive heading that are going to come up and also under the 1965 report paragraphs involving the departments. The largest involved are the Department of Public Works and the Department of National Defence to give you two. Of the 35 cases that you have before you in the 1964 report, 19 alone are from the Department of Public Works. We had Mr. Lalonde, the Deputy Minister, before us in 1964 and I think in that year a very large proportion of the group you were looking at were his and they are here again with 19 out of 35. That would dispose of 19 of these with one witness. At the same time there are quite a number of paragraphs in the 1965 report to which, presumably, you would wish to have him speak.

The CHAIRMAN: How would it be, Mr. Henderson, if we have the Post Office people here on remissions? I notice that Public Works and Post Office are related in some of these non-productive items.

Mr. HENDERSON: I believe that during my absence one of the items discussed was the Agriculture building.

The CHAIRMAN: Yes.

Mr. HENDERSON: That is in the Department of Public Works. Mr. Lalonde would be your principal witness on that, so you might include that one too. It might be more productive to set one aside meeting, at your earliest convenience, and we will see to it that all the cases of the Department of Public Works are brought forward. It would be a full meeting.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, we could pool all the items from the 1964 and the 1965 report. Now, I would suggest that perhaps Mr. Henderson and Mr. Long could group these under department.

Mr. LONG: They are already grouped, Mr. Thomas.

Mr. THOMAS (*Middlesex West*): For instance, if all the items we have under the Post Office Department concern those remissions, it might be possible to deal with those in one meeting along with some other smaller group. We could have the officials of two or three departments here to deal with the smaller groups. It might take one or two meetings in the case of Public Works.

Mr. HENDERSON: If you deal with the Post Office Department you can also take up second class mail and the whole question of the postal revenues which is a subject of continuing comment, as you know, and it started with your follow-up report. It is just a matter of deciding on the days and the people to be called.

The CHAIRMAN: We will have the Post Office officials at the next meeting, and the first item will be remissions; then you have second class mail. This is not under a non-productive item?

Mr. HENDERSON: No; that is a larger subject.

The CHAIRMAN: What was the other item, Mr. Henderson?

Mr. HENDERSON: Public Works.

The CHAIRMAN: No. Was there anything else under Post Office?

Mr. HENDERSON: The Post Office revenues generally and the position in the Post Office are set out in various paragraphs of the report; we can tie them all in together.

The CHAIRMAN: All right, that is the Post Office Department. Then we can go on with Public Works at the next meeting and we will pick out the non-productive items here that deal with that department.

Mr. HENDERSON: While we are on the question of witnesses you may want senior witnesses from the Department of National Revenue. You will need to set aside one meeting for that because there are a lot of questions there. There was the one with which your subcommittee was dealing, and there are a number of others.

The CHAIRMAN: Can we now pick out the non-productive items in the 1964 report that deal with Public Works, and we will go on with those with the witness at our next meeting, as soon as we are through with the Post Office Department.

Mr. WINCH: I completely agree with your procedure, Mr. Chairman, but do I understand correctly that in the meetings which you are going to arrange now

that Mr. Henderson will let the officials know that we are going to ask them questions on both the 1964 and the 1965 reports on a consolidated basis?

Mr. HENDERSON: That is right.

Mr. WINCH: You will notify them on both reports what this Committee wants to know?

Mr. HENDERSON: Yes, you will have them on all items in both reports.

Mr. LONG: Mr. Chairman, I could give the members the paragraphs that will be involved. If you want to deal with the Post Office and everything concerning the Post Office, I could give you the paragraph numbers in the two reports right now.

Mr. WINCH: Mr. Chairman, I suggest, and it is only a suggestion, and I accept your plan, that instead of us having to go through the 1964 and 1965 reports, now that Mr. Henderson and Mr. Long, in approaching the various departments, outline them and then supply us with the material outlined.

The CHAIRMAN: I am sorry to take the time of the Committee, but I think it will save us a lot of time and we will be better equipped to handle ourselves when the officials come before us.

Mr. Long, would you now give us those items that deal with the Post Office. I would suggest, gentlemen, that you write these down.

Mr. LONG: In the 1964 report, you will be interested in paragraphs 77, 78, 79 and 168. These are the paragraphs dealing with the Post Office and you will be hearing from a witness on them.

In the 1965 report you will want to look at paragraphs 105, 106, 107, 108, 109, 110, 111 and 218.

The CHAIRMAN: That will take a whole meeting with the Post Office people. Is it agreeable that at our next meeting we will have the Post Office officials? Incidentally, the next meeting will be on Wednesday morning of next week at 9.30 because Monday is a holiday and we felt we had better put it over until that time.

Mr. HENDERSON: Perhaps we can give you similar references at the next meeting with respect to the paragraphs dealing with the Department of Public Works as well as the non-productive items.

Mr. WINCH: Could we have the ones on Public Works now or at the next meeting?

The CHAIRMAN: You should be sure to keep these before you, and I think our clerk will furnish us with the material.

Mr. LONG: I would ask Mr. Smith to check me on these as I give them. In connection with Public Works in the 1964 report, there will be paragraphs 80, 81 and 82. And in appendix two, that is the non-productive payments in 1964, you will need item 13 to item 31 inclusive, as well as items 34 and 35.

In the 1965 report you will want paragraphs 112 to 123 inclusive. The non-productive payments come under paragraph 142 in this case, they are not in an appendix. You will also need items 8 to 15, under paragraph 142.

Mr. WINCH: Mr. Chairman, may I ask one question here. When we have the officials from the Department of Public Works on the 1964 and 1965 reports, will we be permitted to ask questions about the fantastic situation with respect to increases from \$9 million to \$23 or \$35 million on costs?

The CHAIRMAN: Oh yes.

Mr. WINCH: We can ask these questions at the same time?

The CHAIRMAN: Yes. That is the purpose of having these witnesses here.

Mr. WINCH: Could we also ask for a subcommittee, if required, to go over the plans and original orders? I only raise that, sir, because once, I think, three of us went over to the Department of Public Works and went over all their blueprints and plans. Will this matter be kept in mind if it will be of assistance?

The CHAIRMAN: Yes, if it is the wish of the Committee.

Now, let us examine our procedure from here. We know that we are going to have the Post Office people with us; we have gone over items 77, 78, 79 and 168.

Mr. LEFEBVRE: Mr. Chairman, what is the situation with regard to the Crown Assets Corporation? We were told that we would be hearing from witnesses in this respect in the near future.

The CHAIRMAN: Yes, we will.

Mr. WINCH: Mr. Chairman, is the head man in Crown Assets being advised that we would like to know about the policy discussions being tied in with another department? Do you remember, Mr. Henderson, that that was an important matter?

Mr. HENDERSON: Yes. That should be brought to his attention. I think you should decide on the dates when you will have these witnesses. As I understand it, you will hear from the Post Office Department next Wednesday, and Public Works the meeting after, which I think will be Thursday, and then the following Tuesday, which will be May 31, you could hear from Crown Assets? If you can set the dates then we can arrange the matters accordingly.

Mr. WINCH: You will remember, Mr. Henderson, the discussion we had the last time we had witnesses from Crown Assets with us: the discussion dealing with the amalgamation of some of the departments. Mr. Chairman, would that be a question that we can now ask Crown Assets with respect to what is developing?

Mr. BALLARD: Along the same line of thinking, could Mr. Henderson tell us when we might expect his auditor's report on the Bank of Canada?

Mr. HENDERSON: Mr. Ballard, I am not the auditor of the Bank of Canada.

The CHAIRMAN: They have an outside audit?

Mr. HENDERSON: They have an outside auditing firm. That is one of the Crown Corporations that I do not examine.

Mr. BALLARD: Is this the only Crown corporation that you are not the auditor for?

Mr. HENDERSON: No, there are seven, and you will find them listed in my report at the beginning of the section on Crown corporations.

The CHAIRMAN: Gentlemen, you have a list of the sections on which you can do some previous studying and be ready for the Post Office people next week. We will now continue through these non-productive items.

Mr. BALDWIN: Despite the fact that it has been suggested that all of these items are over and done with; it is not a question of the money involved, it is a question of the principle involved. I see that when we come to the 1965 report there is a very interesting discussion dealing with the Winter Works Incentive Program which should deal with the Department of Labour. I would imagine that when we discuss this subject we might want a representative of the Department of Labour with us at which time we can ask him about this item 1 if we want to.

Mr. WINCH: I am very interested in what Mr. Baldwin has just said. At the same time can we bring forth somebody from Central Mortgage and Housing? I am rather intrigued with regard to this because I happen to know very closely that the contract for the construction of a house, which just started last week and is to be completed in two months, says that it will get the winter housing \$500 grant. I would like to know how this can happen.

Mr. HENDERSON: Mr. Chairman, I really cannot be of much assistance to you here because I am not the auditor of Central Mortgage and Housing. They are one of these exceptions that we were just mentioning; that is one of the seven that I do not do. You would have to call their private auditing firm, as witnesses on that. There is nothing to prevent you from calling them as far as that is concerned.

The CHAIRMAN: That would be an innovation.

Mr. WINCH: I understood that we cannot call before us that which is not referred to us under the authority of the Auditor General.

● (12.14 p.m.)

Mr. HENDERSON: No. The Public Accounts of Canada are referred to you and the accounts of Central Mortgage and Housing along with the other six signed by the other auditors are in the Public Accounts of Canada.

Mr. BALLARD: I am just a little confused about this breakdown between the Auditor General and public accountants. Would the Auditor General give any reason why certain of these should be handled by outside auditors and some by the Auditor General. How does the government determine which should be handled by the Auditor General and which should be handled by outside auditors?

Mr. HENDERSON: For the most part the decision as to who the auditors shall be is made by Parliament in the legislation governing the different Crown Corporations. If it is not, then it is left to the Governor in Council. He has, in the past, either appointed the Auditor General or he has appointed a private firm. Most of the jobs done by the Auditor General stem from the parliamentary legislation. In the case of the Canadian Broadcasting Corporation it is provided by law that he shall be the auditor. In the case of Expo '67 in Montreal it is provided that he shall be the auditor and so on.

In the case, however, of these seven separate crown corporations or instrumentalities, as some of them are called, the legislation, I believe, has provided that the Governor in Council shall appoint the auditor. It has been the practice over a number of years for the government to appoint an outside firm. The Financial Administration Act provides that the Auditor General may be appointed an auditor of a crown corporation or a joint auditor of a crown corporation, and this was the problem that this Committee addressed itself to in 1964, and you have its recommendation in the follow-up report.

Mr. BALLARD: Mr. Chairman, are we really free to call these independent auditors before this Committee?

Mr. HENDERSON: Yes, sir, I would think so.

Mr. BALLARD: Do they, in effect, report to Parliament and not exclusively to the Governor in Council?

Mr. HENDERSON: In answer to Mr. Ballard's question, I would consider that they do report to Parliament. They are in the same position as myself. They address their reports to the ministers responsible but nevertheless they are functioning in the same way as I function in respect of the crown corporations I audit.

Mr. BALLARD: Do you have the facilities and the staff in your office to do all these audits, if you were asked to do so? Is that right?

Mr. HENDERSON: With certain reservations as to size of staff, the answer is "yes".

Mr. LEFEBVRE: I would be interested to know the difference in cost to the government in hiring these outside firms and the difference in cost if you had to make additions to your staff.

Mr. HENDERSON: The cost of hiring these outside firms was the subject of a question on the order paper which the government answered, I think, about six weeks ago, and it is now a matter of record. I do not recollect the figure but it went back to the inception of the firms and one of the questions called for the names of the auditors each year and they were all listed. That information is readily available.

Mr. LEFEBVRE: You do not happen to recall the number of the question?

Mr. HENDERSON: No. We could obtain that, Mr. Lefebvre.

Mr. LEFEBVRE: You could give us the figure then on what your extra cost would be if you were making this audit.

Mr. TARDIF: Projected over a five year period?

Mr. LEFEBVRE: In other words, are we spending too much money hiring outside people, or would we be spending more if your department was doing it?

Mr. HENDERSON: You would not be spending more if my department were doing it, because you would, in the first place, not be paying a profit on the operation, to which everybody is quite properly entitled; I am not suggesting they are not. But in the case of my staff it could call for the addition of some extra people at various levels, naturally, in order to handle the larger audits. It

therefore, becomes a matter of simple arithmetic to determine what the salary cost would be to Canada versus the per diem rates customarily paid to private firms.

Mr. LEFEBVRE: Maybe at our next meeting you could give us an idea of what the difference would be.

Mr. HENDERSON: I would do it with considerable hesitation, Mr. Lefebvre, because, quite frankly, I do not know how much time or work would be involved if I were to estimate what it would cost. I can safely say to you that it would cost less, but how much less depends, naturally, on the size of the job, the time, the amount of work these people are doing. I am without knowledge of the accounts of any of these corporations, or their auditing programs.

The CHAIRMAN: Mr. Lefebvre, you could put a question on the order paper asking for the cost of the audit of the following firms.

Mr. LEFEBVRE: It has already been done, according to Mr. Henderson. The answer has already been given.

Mr. HENDERSON: That is a matter of public information now.

Mr. LEFEBVRE: So we will have to check back in our *Hansards*, I guess.

Mr. LONG: This was an order for return.

Mr. LEFEBVRE: We still do not know what your cost would be so we cannot tell how much money would be saved.

Mr. HENDERSON: There is no question, and I do not think anybody would deny, that the crown would save money; but you would be asking me to make a very difficult estimate because I do not know the basis on which I would carry that audit out, how much time it would take, the calibre of people I would put on the audit, the deadline dates and all the other factors involved. This Committee, in the recommendation it made in 1964, stated with respect to the seven corporations, you will recall it—it is in the follow-up report—that the Auditor General be either appointed the auditor of, or a joint auditor of—contemplating, I think, that if he were not the sole auditor of these that the private firms could still function, but that one of the two firms would be, as a regular appointment, the Auditor General. That is an arrangement that has attractions to my office and also it seems to be a sensible one from the standpoint of giving better service to some of these large corporations and to Parliament.

For me to determine how much that would cost, depends on how I would divide the work with them, and that involves discussions which to date have never taken place. Do you follow? Like all professions, there are ethics in my profession, and I naturally would not wish to be asked to make estimates on an audit which is carried out by a private firm unless it were a direct request of this Committee.

Mr. BALLARD: Mr. Chairman, we have wandered away from the question I had in mind. I was not thinking in terms of the economics of the appointment of an outside auditor as opposed to the use of the Auditor General. I was thinking more of the lines of communication from the auditor to this Committee and from this Committee to Parliament. What I was really asking the Auditor

General was, whether, in his opinion, there is a better, a more direct, line of communication between the Auditor General and Parliament than there is between outside auditors. I think there is. Would you agree with this?

Mr. HENDERSON: I enjoy a very happy line of communication with Parliament through this Committee. I do not think I should speak for other people's lines of communication.

Mr. BALDWIN: Mr. Ballard brought up the very question I wanted to ask; it was in my mind at the time. Through the use of the long form reports which we had before us when we dealt with the C.B.C., when we dealt just the other day with the St. Lawrence Seaway, there is an opportunity for this Committee, as the agent of Parliament, to exercise some measure of vigilance in calling before us from time to time these crown corporations and their officials, and with the aid of the Auditor General's office who have examined the books and made their statements and comments, I think only then can it be said that Parliament is doing its proper job with regard to these vast sprawling crown corporations.

Now, there is another issue and I think it is practical. Men in public life, and I say this instead of politicians, all know that from time to time auditors are changed. I am not complaining about this; this is one of the facts of life which happens but I think, even though Parliament and the government, and this Committee did recommend it in certain instances, a form of joint audit would be better. If we had the Auditor General as always as one of the joint auditors there is a continuity about the examination of the affairs of that company which is very much to be desired; whereas if you find that occasionally auditors are changed over a period of five or six years, you lose that continuity and no matter how excellent the private firms may be something is not apparent which should be. I want to make that suggestion and ask Mr. Henderson, after that long statement, if he would be prepared to agree with that comment.

Mr. HENDERSON: Yes, I do not think there is any question about that. I think that the continual changing of auditors is costly to the client. The auditor has to be educated in his approach to the work: whereas if one of them at least is on a continuing basis, then that is saved, because you have some of your senior people trained in the approaches to these large jobs and a great deal of time can be saved.

Mr. TARDIF: Fully qualified auditors should not take too long to become acquainted with work even if it is in a different field than what he has been doing.

Mr. HENDERSON: No, that is right, Mr. Tardif.

Mr. TARDIF: I have the utmost respect for qualified auditors and their ability to perform.

Mr. HENDERSON: I am very pleased to hear it. However, on the large jobs involving a great many ramifications, and some of our crown corporations and agencies are very large, it is a tremendous help to have the same continuing people at the helm of the programming work.

Mr. LEFEBVRE: How are these auditors hired, sir, for the crown companies? Do you know? Is it the company itself or the minister responsible for the company who—

Mr. HENDERSON: As I have said, they are appointed for the most part by the Governor in Council for a term certain depending on the governing legislation involved. In the case of the Bank of Canada, there is a provision in the Bank of Canada Act empowering the Governor in Council to make such appointments and an Order in Council is issued making the appointments in due course. In the case of Air-Canada, I am only speaking from recollection, and the Canadian National Railway, too, provision is made in the act, I believe the auditors are appointed for one year under the act which comes before Parliament, annually.

Mr. LEBLANC: I am inclined to agree that wherever we have outside auditors we should, at the same time, have joint auditing by our Auditor General. If my memory is correct, I think that last year we strongly recommended, in our report, such a move from the government; did we not, Mr. Baldwin? We had some correspondence between yourself and myself, Mr. Henderson; I remember it well,—

Mr. HENDERSON: That is right.

Mr. LEBLANC: While Mr. Gordon was the Minister of Finance, regarding this same matter. Now, if that was not carried out we can still go on and put forth our recommendation maybe using stronger terms than we used the first time.

Mr. BALDWIN: We might ask the Deputy Minister of Finance or the Treasury Board or if it is a matter of government policy, one of the cabinet ministers. I think that a fair, informal discussion here would be very useful. There may be some reasons which the government has to advance.

Mr. WINCH: That is a good point.

Mr. HENDERSON: The reasons were given in answer to the question I mentioned earlier. The return to which was tabled. The answers are given and I think, by deputy Ministers. I do not recollect just what they said, but it is all part of the return that was tabled. If you saw that you would see as much as I know.

The CHAIRMAN: I think, if I may interject here, that we, as legislators or members of Parliament, are responsible to some degree in this regard. At the present time there is a bill coming before the House, entitled the Company of Young Canadians, and the last section in there says that the auditor shall be chosen at the direction of the Governor in Council. That does not say that the auditor will be the Auditor General of Canada, it may be anybody. We, when this and other acts are going through, should watch this portion of the act and if they want to have an outside auditor we should stipulate that it be put in there that the Auditor General should be a joint auditor. Maybe we are at fault as members of Parliament in having allowed acts to be passed without this part being clearly stated.

Mr. TARDIF: That would have the effect of an auditor checking an auditor.

Mr. HENDERSON: May I say to you that if such action were taken this would not be my interpretation of it. If I were made joint auditor under such an arrangement, it would be joint in fact and in practice; the work would be divided in whatever manner seemed to us most practical and desirable; just the way I do it with Mr. Tremblay the Provincial Auditor of Quebec on Expo '67.

Our staffs are working together on the audit programming and it has proven to be a very satisfactory arrangement.

Mr. TARDIF: Duplication.

Mr. HENDERSON: No, sir, indeed not, because between us we try to give greater coverage. He takes certain facets and I take others. We take a joint and several liability on the correctness of the accounts. I am hoping that if you should call Expo '67 before you in this Committee to examine its accounts. Mr. Tremblay will be here with me as joint auditor. Such an invitation has already been extended to me to appear before the Quebec public accounts committee as and when they wish to examine it and I think that is precisely as it should be. It is by no means an auditor checking another auditor. Have I made my point, sir?

Mr. WINCH: All I can say is I have not changed my mind since the long discussion we had in the Committee in 1964. It was the unanimous decision in 1964 that in the view of the Public Accounts Committee the Auditor General should have the position of being Auditor General of all ramifications of government service, whether it be crown corporations or others. We now have a situation with all the ramifications of the federal government but there are still seven outside his over-all survey jurisdiction. I would hope that, if there is no change in the point of view from 1964, perhaps, we might spend a day again discussing this matter, because in my own personal opinion, I cannot for the life of me see any reason why certain bodies should be outside the auditing jurisdiction of Auditor General of Canada. I think it is far better for us to be able to deal with the report from the Auditor General on everything of government business than being in the position which we are now in of having authority to call in the private auditor of a crown corporation, a company or of whatever term you want to use. I hope, sir, that we will have some time, at your discretion, to discuss this matter again and I sincerely hope that we will reinforce, as was mentioned by my hon. friend a few months ago, in stronger terms our recommendation made in 1964 which has been completely ignored by the government.

Mr. BIGG: I have only been on this Committee a very short time but it seems,—and I do not know the reason for it—that our recommendations are apparently completely ignored; perhaps I should not say “completely” but often ignored. I do not understand why. Why do we sit if in 1964 we passed an unanimous decision and it seems we are going to pass exactly the same thing at the end of these sittings, if some of these streamlinings are not going to be taken into consideration? Is there no way that we can put pressure on someone and on whom do you work? Why is there not an official of the government here?

Mr. TARDIF: Frustrating, is it not?

Mr. BIGG: It could be. I am not easily frustrated.

The CHAIRMAN: This is one of the things with which this committee has to come to grips.

Mr. BIGG: Would it be a suggestion that some time before the Committee rises, at the end of the session, we have members of the Privy Council here or

members of the establishment, whoever they are, who make the decisions in the end, and impress on them that we do not intend to sit here year after year—

The CHAIRMAN: Well, Mr. Bigg, I think—

Mr. TARDIF: I think before doing that we should read the terms of reference again and find out—

The CHAIRMAN: This is something we have to get—

Mr. BIGG: That is all very well. Maybe we can make a recommendation and have the terms of reference changed.

The CHAIRMAN: Mr. Baldwin, you are our legal expert.

Mr. BALDWIN: Mr. Chairman, I say without pay when Mr. Forbes is not here. When we come to the beginning of the 1965 report, we will find that the preliminary functions and responsibilities of the Auditor General are outlined. The report is now being made and we will go into the Financial Administration Act and we go into the Standing Committee on Public Accounts. When we get into the beginning of the 1965 report, after the preliminaries, this is the useful time and it falls in line under the terms of reference. As a matter of fact, the terms of reference under the order which is made by the House, is that the 1964 and the 1965 Auditor General's report are referred to us. I would hazard the opinion that anything which is covered in the 1964 and 1965 reports is acceptable of examination by us and the report is discussed.

I would think that when we come to the beginning of the 1965 report we could have, I would hope, a very useful discussion and if necessary spend part of a meeting on this. No matter how effective we are in our recommendations, or how useful are our recommendations, some effort should be made by us to see why they are not being followed and the reasons assigned. I have made some study on this and I have some comments with regard to the procedure in other Commonwealth countries and I am very interested in it.

Mr. WINCH: Mr. Chairman, I have had the privilege, and it is a privilege and an honour, to be a member of this Committee ever since it was established in this House. This Committee actually, in its terms of reference, has the most authority of any committee of the House of Commons, if we want to use it.

Mr. TARDIF: Yes, I am not questioning the authority of the Committee. I just merely suggested that it might be a good thing if we read the terms of reference over again.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, I just want to raise the question of what else have we to finish in the 1964? We have disposed, I understand, of the non-productive payments for this particular year.

Mr. HENDERSON: You will have disposed of them when you have the witnesses.

Mr. THOMAS (*Middlesex West*): Now, is there anything else in this 1964 report that we need to go over before closing it off and going on to the 1965 report.

Mr. WINCH: As a matter of fact, it is the last item.

Mr. HENDERSON: If I may answer that, Mr. Chairman, I do not think you should spend any more time now on the 1964 report. I would suggest that,

although you are scheduling a witness for Tuesday and for Thursday, it will mean that you will be several meetings away before you get into the 1965 report. We are all ready to start going through that 1965 report and I had hoped we might have started it this morning.

Mr. THOMAS (*Middlesex West*): Might I say, Mr. Chairman, that when we call these witnesses we will be dealing with—

Mr. HENDERSON: You will be knocking off a number of items. That is right.

The CHAIRMAN: I know that some gentlemen have to leave but I would like to go through to one o'clock. Mr. Thomas, following what you said, all the Committee members will receive from our clerk, a list of those items that will be coming before us at the next meeting and the witness who will be appearing before us, so that you will come knowing that the Post Office or Public Works officials will be here and you will know what items are going to be handled. We will arrange to have a witness here at every meeting we have.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, have you taken into consideration possibly the desirability of a general discussion on the 1965 report before we take up too many—

The CHAIRMAN: Yes, I thought if we could spend 20 minutes and let Mr. Baldwin bring his thoughts to the attention of the Committee on this matter, we would open it right now.

Mr. BALDWIN: Mr. Chairman, I will not take 20 minutes but there are some things I would like to leave with the Committee so that by the time we come back they might be able to give some thought to them and have some discussion now. I asked a question in the House—I assure the Committee it was a purely non-partisan question—of the Prime Minister about two months ago on what consideration was being given with regard to increasing the independence, the authority and the status of the office of the Auditor General. I may say that I do not have in mind the question of any individual; it is not Mr. Henderson I am thinking of, it is the office. Mr. Henderson succeeded Mr. Sellar, who rendered very considerable service to this country and in due course Mr. Henderson will be succeeded by some other person. We can hope that whoever will come into this job will bring to it the same degree of independence, integrity and usefulness as has Mr. Henderson and his predecessor. It is one of our jobs to make sure that this is the case and that this will happen. It was for this reason that I asked Mr. Long three meetings ago to produce, which he did, and file a statement showing the comparative salaries of the Auditor General and other officials such as the Deputy Minister of Finance, the Clerk of the Privy Council, the Chief Justice, the President of the Exchequer Court and also officials of Mr. Henderson's own department.

My belief of what was the case was confirmed by this statement, which unfortunately is not before the Committee yet because it is appended to the transcript of the proceedings. This statement shows that in 1924 the Auditor General's salary was somewhat in excess of those of the officials I have mentioned. Since then, while his salary has gone up, the salaries of other officials, particularly those of the premier deputy ministers, have gone up very substantially, to a higher rate and are now very much in excess of his. It is not a question of the money; it is a question of the status of the position.

Secondly, we have dealt with another point I wanted to bring up, the authority of the Auditor General with regard to the auditing of these crown corporations. I have given my views on that.

The CHAIRMAN: Mr. Baldwin, before you leave your first point, would you object to stating the salaries for some of those officials?

Mr. BALDWIN: For example, my recollection is that in 1924 and Mr. Long can check me on this because I thought the transcript might be available, the Auditor General's salary was \$15,000. Some of those of the senior officials, I think the Deputy Minister of Finance and the President Privy Council were somewhat less than that. The Chief Justice of Canada—I do not think there was a President of the Exchequer Court at that time—possibly Mr. Long you might just read to the Committee the essence, the gist, showing the distinction between 1924 and the present time.

The CHAIRMAN: Maybe I should give this list to you, Mr. Baldwin, and you can complete your statement on it.

Mr. BALDWIN: All right. In 1924 the Auditor General's salary stood at \$15,000.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, might the other members of the Committee have a copy of this?

The CHAIRMAN: Unfortunately, not at the moment, Mr. Thomas, but it is in our report and we will have it as soon as the report is printed and delivered to us.

Mr. TARDIF: I hate to break quorum but I have a 12.30 appointment and I do not know under what clause this is being discussed anyhow. I think it could be probably be kept until the next meeting, if it is necessary for me to be here. I do not object to people making a living wage.

Mr. CHAIRMAN: We will excuse you, Mr. Tardif.

● (12.44 p.m.)

Mr. BALDWIN: In 1924, the Chief Justice of Canada's salary was the same; the President of the Exchequer Court was \$10,000; the Clerk of the Privy Council was \$6,000. This is at the time when the Auditor General's salary was \$15,000; the deputy minister of finance was \$10,000, the Undersecretary of State for External Affairs \$8,000, the director of the bureau of government organization was \$6,300. The Assistant Auditor General at that time was \$5,100; the Audit Director was \$4,200. At the present time the salaries of the Clerk of the Privy Council are \$29,160; the Chief Justice of Canada \$35,000; the Auditor General \$25,000; the deputy minister or finance \$29,160; the Undersecretary of State for External Affairs, \$29,160; the Director of the Bureau of Government organization \$29,160, the Assistant Auditor General \$22,750, the Audit Director \$19,500. My point is, I do not object to the salaries being given to these other people. My view always has been that in order to attract good people into government service and keep them there we have to pay it. However, this is *obiter*. But I do suggest there is an obvious distinction there. As the salaries of these other very important and very essential functioners has gone up, that of the Auditor General has not gone up in the same proportion. This will be on record and it will be quite obvious, I think it has some effect and it is bound to

have some further effect when some time in the future some consideration is going to be given whenever—and I hope this may not be for some time—Mr. Henderson's term of office is gone and someone else is going to step into his shoes.

I said something about the crown corporations. This has been discussed. I feel that this certainly is a matter that should be brought into the ambit of the Auditor General's office. Then, I come to the question of the ability of the Auditor General with regard to recruitment of staff. This comes right under the first item in the 1965 Report which we have discussed in this committee over and over and over again. I hope before we leave, before we make our final report, that we will have reinforced in no uncertain terms a very strong view which I hold, and I know other members of the Committee hold, that in an effort to increase, or to retain the status, the strength and the authority of the office, there should be an independence which the Auditor General should exercise in the engaging in the obtaining and hiring of staff.

Now, finally, I want to call to the attention—I am being very brief in this, Mr. Chairman, because I know there will be other people wanting to discuss it—of the committee a very interesting arrangement in Australia. I am dealing here with the question of public accounts. There the public accounts committee which is related to the Auditor General is appointed, not under terms of reference by the House of Commons, but under an act of parliament. The Public Accounts Committee Act, 1951, defines the duties of the committee which is composed there of several senators and a certain number of members of the House of Representatives. It provides almost a statutory term of reference, and permits the committee to function not under the lead of the House but under the terms of the act of parliament. True enough, additional terms of reference can be conveyed by parliament, but basically the function of the committee comes under an act of parliament. I think we should have something like this here. I think also that the office of the Auditor General should be under separate legislation and not combined with that of the provisions of the Financial Administration Act. All of his characteristics, his duties, his functions should be set out in an audit act or an act of the Auditor General and, therefore, his position is derived directly from statute rather than from a statute of which he is only a subsidiary in his duties as far as legislation is concerned.

I end on this note, Mr. Chairman. We are now getting into large government spending programs. Ours is not a question of talking of policy of these matters; I do not intend to. But, with the pension plan, with the proposals for medicare, with a war on poverty, with the Canada assistance plan, it is obvious the government is going to be involved either directly or jointly with the provinces in expenditures of increasingly large amounts of money. The sole line of defence, is the Auditor General apart from the officials of departments, and I am not being critical of them, but there is an impersonality to government as I see it where sometimes they lose sight of the trees by this survey of the forest as a whole.

The main line of defence on behalf of the taxpayer is the office of the Auditor General and Parliament working through this Committee, I offer these views as a result of my experience in sitting in the Committee for some years and observing what has gone on. I do hope that before we are finished we might

have an opportunity of having the views of the Committee expressed and possibly dealt with in the form of a recommendation.

I am going to pass this report of the Joint Committee of Public Accounts of the Commonwealth of Australia to you, Mr. Chairman. It shows the terms of the act of parliament; it also indicates a very interesting procedure where, by arrangement between the Treasury Board and the Public Accounts Committee twice a year there is published a report where side by side the recommendations of the committee are placed with the views of the Treasury Board. Here, for example, you will see, if it is passed around a summary of the committee's conclusion on one particular matter right opposite the Treasury Board minute which deals with the issue. There you see twice a year displayed the recommendations of the committee, the extent to which the government departments and Treasury Board have dealt with them; if they have refused to deal with them, if they are reserving them, fine. But it is set out, it is apparent, and the committee knows what is going on and through the committee parliament knows what is going on. I will pass that up, Mr. Chairman, for consideration. That is all I have to say on this issue.

The CHAIRMAN: Thank you very much, Mr. Baldwin, for your views. It represents a great deal of thought and research and I know it is something that will be of great value to this Committee, and from it will evolve some changes in our set-up. You mentioned an act of parliament. If we had that it would have overcome one problem that we experienced this year in the Public Accounts Committee, namely, that of waiting for our orders from the House. We waited one month before we were given our orders to proceed and what to deal with. With this arrangement, we could have started the second day after the House convened. So, it is wonderful to have these views. Let us hope that they can be incorporated in our system. This suggestion of having the recommendations of the Committee and beside it those of Treasury Board is just the same thing as the debit and credit columns in the ledger, and it is there before you to see what has been done.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, could we have that document reproduced as an appendix to the proceedings for today, or have it reproduced and distributed?

The CHAIRMAN: The clerk says he could have a photocopy made for each member of the Committee to study.

Mr. WINCH: I now move that we adjourn.

The CHAIRMAN: All right. Moved that we adjourn by Mr. Winch.

Sorry for a little lack of continuity today but from here on we will have it all laid before us. Thank you.

On motion of Mr. Winch the Committee adjourned.

APPENDIX 3

Public Accounts Committee

Remissions of postage charges under section 22 of
the Financial Administration Act

As requested at the May 5 meeting, there is listed below the 18 remissions of postage charges which have been granted by the Governor in Council.

There were no such remissions by the Governor in Council in 1963-64 as the first request for such remission was made by the Post Office Department early in 1965 following the tabling of the Auditor General's 1964 Report.

P.C. 1965-44/379 March 5, 1965

1. Southam Printing Co. Ltd., Toronto, Ont.	\$ 561.01
2. Blackwood, J. O., London, Ont.	240.00
3. Tomar Publications Ltd., Montreal, P.Q.	501.70
4. Clark, Miss M., Toronto, Ont.	129.47
5. McCall Corporation, New York	943.12
6. The Conde Nast Publications Incorporated, Greenwich, Conn.	461.44
7. Time Incorporated, Chicago	2,698.11
8. MacLean Hunter Publishing Co. Ltd., Toronto	709.39
9. Meredith Publishing Co., Des Moines, Iowa	10,040.66
10. Charters Publishing Co. Ltd., Brampton, Ont.	86.39

P.C. 1965-52/862 May 13, 1965

11. Sun Publishing Co. Ltd., Edmonton, Alta.	1,276.02
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P.C. 1965-36/2076 November 24, 1965

12. Mission to Lepers, Toronto, Ont.	163.29
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P.C. 1965-35/2076 November 24, 1965

13. Montrealer Nachrichten Publishers Ltd., Montreal	195.00
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P.C. 1965-28/2175 December 8, 1965

14. Toronto Daily Star, Toronto, Ont.	99.86
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P.C. 1965-27/2175 December 8, 1965

15. J. A. Young, Agincourt, Ont.	158.21
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P.C. 1966-14/47 January 12, 1966

16. Quebec Pension Board, Quebec, P.Q.	1,313.18
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P.C. 1966-35/487 March 17, 1966

17. Christian Press Ltd., Winnipeg, Man.	204.24
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P.C. 1966-30/588 March 31, 1966

18. New Brunswick Publishing Co. Ltd., Saint John	347.37
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\$ 20,128.46

APPENDIX 4

At the meeting of the Committee on May 12th Mr. Schreyer asked if the Public Officers Guarantee Account covered employees of Crown corporations.

The answer is that the Public Officers Guarantee Account covers all departments except the Post Office Department which has its own Guarantee Fund and the annuity representatives of the Department of Labour who are covered by fidelity bonds. The Public Officers Guarantee Account also covers employees of the Custodian of Enemy Property and all Crown corporations except:

- (a) Canadian National Railways
- (b) Canadian National (West Indies) Steamships Limited
- (c) Central Mortgage and Housing Corporation
- (d) Air Canada
- (e) Canadian Broadcasting Corporation.

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LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 9

WEDNESDAY, MAY 25, 1966

Public Accounts, Volumes I, II and III (1964 and 1965)

Reports of the Auditor General to the House of Commons (1964 and 1965)

WITNESSES

Mr. A. M. Henderson, Auditor General of Canada; Mr. C. Daze, Acting Deputy Postmaster General; Messrs. J. A. MacDonald, E. W. Jay, F. Pageau, G. S. McLachlan, and R. J. Cousens of the Post Office Department.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,	Mr. Gendron,	Mr. Stafford,
Mr. Ballard,	Mr. Leblanc (<i>Laurier</i>),	Mr. Tardif,
Mr. Bigg,	Mr. McLean (<i>Charlotte</i>),	Mr. Thomas (<i>Maison-</i>
Mr. Cameron	Mr. Morison,	<i>neuve-Rosemont</i>),
(<i>High Park</i>),	Mr. Muir (<i>Lisgar</i>),	Mr. Thomas (<i>Middlesex</i>
Mr. Dionne,	Mr. Noble,	<i>West</i>),
Mr. Flemming,	Mr. Racine,	Mr. Tremblay,
Mr. Forbes,	Mr. Schreyer,	Mr. Tucker,
		Mr. Winch—(24).

(Quorum 10)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

WEDNESDAY, May 25, 1966.

The Standing Committee on Public Accounts having been called to meet at 9.30 a.m. this day, the following members were present: Messrs. Hales, Schreyer, Winch (3).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Messrs. Long, Crowley, Laroche and Murphy of the Auditor General's staff; Mr. C. Dazé, Acting Deputy Postmaster General; Messrs. MacDonald, Jay, McLachlan, Gaunt and Cousins of the Post Office Department.

At 9.40 a.m., there being no quorum, the Chairman adjourned the meeting to 3.30 this same day.

AFTERNOON SITTING

(11)

The Standing Committee on Public Accounts met at 3.45 p.m. this day, the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Baldwin, Bigg, Dionne, Flemming, Forbes, Gendron, Hales, Lefebvre, Muir (*Lisgar*), Noble, Schreyer, Tardif, Thomas (*Maisonneuve-Rosemont*), Thomas (*Middlesex West*), Tucker, Winch (16).

Also present: Mr. Cowan.

In attendance: Same as at morning sitting, and Mr. Pageau of the Post Office Department.

Mr. Baldwin, Chairman of the Subcommittee on Agenda and Procedure read the following report:

Public Accounts Committee
Report of Sub-Committee appointed
to enquire into circumstances out-
lined in paragraph 69 of the
Auditor General's 1964 Report

Payment of duty on coasting trade vessel deferred

Your Committee met with members of the Auditor General's office and obtained additional information concerning the case outlined in paragraph 69 of the Auditor General's Report including a written statement made by the department to the Auditor General.

Your Committee agrees with the Auditor General when he states that the action by the department in penalizing one of its collectors for its own failure to collect the duties in full, as provided by law, and then causing the penalties to be remitted is irregular and undesirable and is

contrary to the provisions of sections 22 and 79 of the Customs Act and part 13 of the Canada Shipping Act.

Your Committee considers that this action, requiring one of its collectors to become liable to a penalty provided by law and then to recommend to the Governor in Council that the penalty be remitted cannot be condoned and it expresses the hope that the department will not again resort to such an expedient.

However, the Committee is pleased to note that the post-dated cheques tendered in payment of the Customs duty were all honoured on due date and therefore the transaction resulted in no loss to the Crown other than any loss of interest it may have suffered by not having received the full amount of the duties at the time of the issue of the coasting license.

Your Committee feels that there were extenuating circumstances in this case and was surprised to learn that the covering legislation does not provide any discretion when such unusual and extenuating facts are found to exist. It understands that the department is giving consideration to changes which might be recommended to bring the Customs legislation into line with modern needs and conditions.

(signed) G. W. Baldwin

(signed) Jack Bigg

(signed) A. M. A. McLean

(signed) Hugh John Flemming.

There was no discussion on the report.

Following the introduction of Mr. Dazé and his staff, the Committee questioned both the Auditor General and Post Office representatives on:

(1) Item 1—Auditor General's Long Form 1964;

(2) Table 2—Post Office Department—Summary of Receipts and Disbursements—Fiscal year ending March 31, 1959 (Page 325, Vol. 3, Royal Commission on Government Organization);

(3) 1964 Auditor General's Report to the House of Commons:

- (i) Paragraph 77—Waiving of postage charges;
- (ii) Paragraph 78—Departmental decision not to dismiss an employee;
- (iii) Paragraph 79—Second class mail;
- (iv) Paragraph 168—Post Office activities;

(4) 1965 Auditor General's Report to the House of Commons:

- (i) Paragraph 105—Second class mail;
- (ii) Paragraph 106—Second class mail—free mailing privileges;
- (iii) Paragraph 107—City transportation services;
- (iv) Paragraph 108—Postage stamps destroyed;
- (v) Paragraph 109—Write-off of obsolete stores;
- (vi) Paragraph 110—Charges for Post Office lock boxes and bag service;

(vii) Paragraph 111—Post Office Savings Bank;

(viii) Paragraph 218—Post Office activities.

At 6.05 p.m., the questioning of the witnesses concluded, the Chairman adjourned the meeting to 11.00 a.m. Thursday, May 26, 1966.

Édouard Thomas,
Clerk of the Committee.

EVIDENCE

(Recorded by electronic apparatus)

WEDNESDAY, May 25, 1966.

● (3.30 p.m.)

The CHAIRMAN: Gentlemen, we have a quorum. We have with us this afternoon officials from the Post Office Department and before proceeding I would refer you to the Auditor General's report of 1964, and turn to page 133, section 168.

168. *Post Office activities.* The following is a summary of the Post Office transactions as recorded in the Post Office section of Volume II of the Public Accounts for the year ended March 31, 1964 in comparison with the corresponding amounts for the preceding fiscal year:

	Year ended March 31	
	1964	1963
Gross postal revenue	\$ 235,808,000	\$ 222,300,000
Less: Expenses paid from revenue	35,091,000	29,528,000
	<hr/>	<hr/>
Net postal revenue	200,717,000	192,772,000
Miscellaneous revenue	57,000	59,000
	<hr/>	<hr/>
	200,774,000	192,831,000
	<hr/>	<hr/>
Deduct: Expenditures from parliamentary appropriations—		
Operations	135,609,000	119,992,000
Transportation	65,952,000	63,935,000
Administrative, financial services, etc.	5,334,000	5,417,000
	<hr/>	<hr/>
	206,895,000	189,344,000
	<hr/>	<hr/>
Expenses of expenditure over revenue	\$ 6,121,000	\$ (3,487,000)
	<hr/>	<hr/>

This recorded excess of expenditure over revenue of \$6,121,000 did not, however, take into consideration estimated costs of services provided

by other departments, including accommodation provided by the Department of Public Works estimated at \$25,859,000, contributions to the Public Service Superannuation Account and to employee surgical-medical insurance premiums by the Department of Finance estimated at \$8,570,000, accounting and cheque issue services provided by the Comptroller of the Treasury, \$587,000, and employee compensation payments by the Department of Labour, \$231,000, a grand total of \$35,247,000. Neither were credits for mail franked by and sent to government departments and Members of Parliament, estimated at \$3,860,000, included. Taking these into account the operating deficit would be \$37,508,000 rather than \$6,121,000 as shown.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, do you have an extra copy?

The CHAIRMAN: The Clerk will give you a copy.

Mr. BALDWIN: Mr. Chairman, some time before the proceedings are closed, I would like to be able to file, without making a motion in respect to it at this time, the report of the subcommittee which looked into this question dealing with paragraph 69 in the Auditor General's report. The subcommittee has reached a consensus on that; we have a report signed by us and I would like to file it and read it sometime appropriate to the proceedings. As I say, I do not want to make any motion, but simply leave it for the consideration of the Committee and it can be discussed later.

The CHAIRMAN: Mr. Baldwin, do you propose to file it now?

Mr. BALDWIN: There is only a page to read and I propose to file it and leave it with you.

The CHAIRMAN: Would you like to do it now or wait until the end of the meeting?

Mr. BALDWIN: I will do it now if I might.

The CHAIRMAN: Mr. Baldwin will now file the report to the subcommittee.

Mr. BALDWIN: This, Mr. Chairman, deals with paragraph 69 in the 1964 report which the subcommittee was set up to decide. The report is as follows:

Your Committee met with members of the staff of the Auditor General's office and obtained additional information concerning the case outlined in paragraph 69 of the Auditor General's report, including a written statement made by the department to the Auditor General.

Your Committee agrees with the Auditor General when he states that the action by the department on penalizing one of its collectors for its own failure to collect the duties in full as provided by law, and then causing the penalties to be remitted is irregular and undesirable and is contrary to the provisions of sections 22 and 79 of the Customs Act and Part 13 of the Canada Shipping Act. Your Committee considers that this action requiring one of its collectors to become liable to a penalty

provided by law and then to recommend to the Governor in Council that the penalty be remitted cannot be condoned expresses the hope that the department will not again resort to such an expedient.

However, the Committee is pleased to note that the post-dated cheques tendered in payment of the customs duty were all honoured on due date and therefore the transaction resulted in no loss to the Crown other than any loss of interest it may have suffered by not having received the full amount of the duties at the time of the issue of the coasting licence.

Your Committee feels that there were extenuating circumstances in this case and was surprised to learn that the covering legislation does not provide any discretion when such unusual and extenuating facts are found to exist. It understands that the department is giving consideration to changes which might be recommended to bring the Customs legislation into line with modern needs and conditions.

It is a unanimous report and I will file it at this time, if I may.

The CHAIRMAN: Thank you, Mr. Baldwin, and members of the subcommittee. Mr. Daze, assistant Deputy Postmaster General, would you like to introduce the members of your staff?

Mr. C. DAZE (*Assistant Deputy Postmaster General*): Thank you, Mr. Chairman. On my immediate left is Mr. J. A. MacDonald, Comptroller. On his left is Mr. E. W. Jay, Director of Budgets. Behind me and to my immediate left is Mr. J. B. Gaunt, acting Director of Postal Service. Next to him is Mr. G. S. McLachlan, Assistant Director of Postal Rates and Classifications, and last but not least, Mr. Fred Pageau, Director of Postal Rates and Classifications.

The CHAIRMAN: Thank you, Mr. Daze. We are happy to have members of your staff with us. Please feel at home. Mr. Henderson, would you commence by giving us a brief introduction of the Post Office Department workings and then we will go into each paragraph.

Mr. A. M. HENDERSON (*Auditor General of Canada*): Mr. Chairman, I believe the best way to commence any discussion of the operations of the Post Office would be first to review briefly its revenues and expenditures as they are recorded in the public accounts, so that members of the Committee may have a clear picture of how the Post Office keeps its accounts as a department of government.

It is not a crown corporation, although suggestions have been made from time to time that perhaps it should be established as one. In doing this, we can immediately dispose of paragraph 168 of my 1964 report and paragraph 218 of my 1965 report where I bring these figures together each year under departmental operating activities. I would suggest that members might like to open the 1965 report at page 180 in the English edition and to note paragraph 218 on Post Office activities which shows the position for the year ended March 31, 1965 compared with the previous year:

218. *Post Office activities.* The following is a summary of Post Office transactions recorded in the Post Office section of Volume II of the Public

Accounts for the year ended March 31, 1965 in comparison with the corresponding amounts for the preceding year:

	Year ended March 31	
	1965	1964
Gross postal revenue	\$ 263,704,000	\$ 235,808,000
Less: Expenses paid from revenue	33,268,000	35,091,000
Net postal revenue	230,436,000	200,717,000
Miscellaneous	53,000	57,000
	<u>230,489,000</u>	<u>200,774,000</u>
Expenditures from parliamentary appropriations—		
Operations	135,375,000	135,609,000
Transportation	69,056,000	65,952,000
Administration, financial services, etc.	6,028,000	5,334,000
	<u>210,459,000</u>	<u>206,895,000</u>
Excess of revenue over expenditure	\$ 20,030,000	\$ (6,121,000)

The Department estimates that, of the \$27.9 million increase in gross postal revenue, approximately \$8.8 million was due to increases in registration and special delivery fees effective November 1, 1963 and in C.O.D. fees and third class matter rates effective April 1, 1964.

The recorded excess of revenue over expenditure of \$20,030,000 did not take into consideration the cost of services provided without charge by other government departments. These costs were estimated at \$35,825,000 and comprised the following: accommodation, \$25,298,000; contributions to the Public Service Superannuation Account and to employee surgical-medical insurance premiums, \$9,681,000; accounting and cheque issue services, \$584,000; and employee compensation payments, \$262,000. Credits for carrying mail franked by and sent to other government departments and Members of Parliament estimated at \$4,210,000 were also excluded. Had this unrecorded expenditure and revenue been taken into account, there would have been an operating deficit for the year of \$11,585,000 instead of an excess of revenue over expenditure of \$20,030,000.

I will be making these remarks as short as I can, Mr. Chairman, because last Thursday, May 19th, the Postmaster General, in his opening statement, gave the members of the House in committee of Supply a good picture of the financial operations of the Post Office. The figures he used are the same as the ones I am going to use. The revenue accruing to the Post Office has increased by \$46 million over the past four years, the largest single increase being the

improvement of \$30 million shown in 1965 in the tabulation which you will see under paragraph 218. You will note that the Department estimated that of the \$27.9 million increase in gross postal revenues shown here, approximately \$8.8 million is due to increases in registration and special delivery fees which became effective November 1, 1963, and in C.O.D. fees and third-class matter rates effective April 1, 1964. Expenditures from parliamentary appropriations have increased by \$25 million dollars, from \$185 million in 1961-62 to the figure of \$210 million shown in paragraph 218 for the 1965 year. The largest single increase in expenditures during the last four years took place in 1963-64 over the previous year when \$18 million, approximately a 9% increase, was incurred due to retroactive salary increases in that year. The \$4 million increase shown in paragraph 218 is due largely to increased costs of transporting mail by land and air.

It can, therefore, be seen that for the first time in many years the revenue of the Post Office showed an excessive revenue over expenditures in 1965 which amounted to \$20 million. However, this recorded excess of revenue over expenditures did not take into consideration the cost of services provided without charge to the Post Office Department by other Government departments. As stated in paragraph 218, and you will find it at the top of page 181, the cost of these services was estimated at \$35 million. At the same time, the Post Office, without charge, carried mail franked by and sent to other government departments and Members of Parliament, of which it is estimated postage at normal rates would have amounted to \$4.3 million. Consequently, if this unrecorded expenditure and revenue had been taken into the accounts of the Post Office, either as a department or as a Crown Corporation, then there would have been an operating deficit for the year of \$11.5 million instead of a surplus shown of \$20 million.

The question as to the manner in which these additional costs of services provided without charge by other government departments are to be recorded in the expenditures of the Department using the services, continues to be under study by the Treasury Board in its efforts to achieve more accurate costs in line with the recommendations I have made over the past several years in my report, and which you, as a committee, have consistently supported. As you know, the same situation obtains in a number of other government departments. The only progress made to date on this subject has been the showing of these costs in the estimates blue book where, in the case of each government department, they are described in the details of services, as you know, in memorandum form as "Approximate value of major services not included in these estimates".

The problem, therefore, is how these expenses can be paid by and included in the accounts of the department who are responsible for them so as to achieve better cost control. This problem, of course, would not exist if the post office department were to operate as a Crown corporation.

I think now, Mr. Chairman, if I might be permitted, I should like to dispose of two more paragraphs here and introduce the question of second-class mail, because if the loss that is being incurred by the Post Office Department from second-class mail could be recaptured by the Post Office Department, it would more than cover the operating deficit of \$11.5 million for 1965, which I have

mentioned and which the Postmaster General himself referred to in his remarks to the House in Committee of Supply last Thursday. We do not know yet how much this amounted to in 1964-65, but it was estimated at \$35 million for 1963-64.

The question of how to deal with the loss arising from second-class mail has been the subject of comment by my predecessor and myself in our reports to the House for the past ten years, and this committee has discussed this problem in its various aspects on four occasions, namely 1958, 1960, 1961, and 1963 with our friends from the Post Office Department. As you know, this was again Item 1 in the 1966 follow-up report that I gave this committee when we commenced our sessions. The committee had stated that it believed early consideration should be given by Parliament to ways and means of covering the loss of the Post Office Department in handling second-class mail, and requested me to keep the matter before Parliament in my annual reports in order that subsequent committees may give consideration to it. I did this in my 1964 report under paragraph 79, and in my 1965 one, under paragraph 105.

It may interest members here to know that in 1956-57 postal revenues from mailings of newspapers and periodicals were \$6 million annually. At that time the Post Office estimated the cost of handling these was about \$24 million a year. It has never been legislative policy to fix rates to result in a self-supporting service. Apparently the aim has been to encourage the dissemination of news, with some categories of newspapers and periodicals being charged lower rates than others; whether the excess of costs over revenue estimated benefits publisher, advertiser or subscriber, was described by my predecessor ten years ago, as an imponderable.

By 1963-64, the second-class mail revenues had increased to slightly over \$8 million, that is to say from six, but the cost of handling this second-class mail was estimated at something in excess of \$43 million. So that as I said, the loss in handling this class of mail in that year was in the order of \$35 million.

In the ten year period which I have mentioned, I believe it is correct to say that although there have been a number of changes with respect to second-class mail, only two of these changes were really designed to improve the revenue from this source. The first such change was an increase from varying rates to five cents a pound on foreign publications mailed in Canada. This resulted in increased revenues of about \$1,250,000 a year.

The second was the withdrawal of the favourable second-class rate on newspapers and magazines mailed by the general public. Such mailings are now subject to postage at the third-class rate of three cents for the first ounce; while the newspaper or periodical thus mailed may have been carried, when originally mailed by the publisher, for as little as a cent and a half a pound. This change is estimated to have increased postal revenues by something over \$500,000 a year.

In addition, a government resolution designed to implement recommendations of the Royal Commission on Publications was introduced into the House on March 9th, 1964 which, if it had been adopted, would have extended to the cultural or little magazines a reduced rate of a cent and a half a pound, and repealed the higher local delivery rate of periodicals published weekly or less

frequently. The resulting reduction in revenue is estimated at \$585,000. The same resolution would also have established a minimum charge of half a cent per item, designed to increase revenues by \$450,000 per annum. However, the resolution died when Parliament prorogued on April 3, 1965.

A change which has favoured both foreign and Canadian publishers and which has reduced the revenue from second-class postage by an indeterminable amount was the relaxation of the requirements concerning inserts. Inserts which formerly may have been subjected to the higher third-class rate of postage are now permitted, while the entire mailing is accepted at the second-class rate. In this connection, Mr. Long and I have an example which we would like to show you to demonstrate precisely what is happening under this heading. I will not take the time now, but in the question period that follows you might be interested in seeing it.

I believe the reproductions from the Glassco report are being distributed to you in which the 1959 figures are set out. I would ask you to disregard them for the moment, but the report shows the different classes of mail, the receipts, disbursements, and whether a surplus or deficit is derived by the Post Office Department. It is because of the interest in the presentation of this information that I thought you would like to have it since it demonstrates very clearly the effort the Post Office Department makes to separate its different products, so to speak, and in determining the cost of handling each type of mail.

Now, the cost of handling second-class mail is, as you will see from this sheet, determined in the same manner and it is determined by means of what is known as cost ascertainment methods. In 1964, the department engaged a firm of consultants to review these procedures to see if they could establish more accurate costs with respect to the various classes of mail. However, as the procedures recommended by the consultants were only put into effect in January 1965, no figures were available to determine the loss for handling it in 1965. I do not believe we have it yet, but the Postmaster General told the House last Thursday, if I understood him correctly, that he hopes by July of this year to have data on this subject covering the whole year. Perhaps Mr. Daze and his associates here today can furnish some additional information on this.

This sums up the background information, Mr. Chairman, and members might like to tick off four of the paragraphs on their guide sheets which we have disposed of.

The CHAIRMAN: Mr. Daze, would you like to comment?

Mr. DAZE: I would suggest that Mr. MacDonald and/or Mr. Jay comment because they are more fully aware of all the details that took place than I am.

Mr. WINCH: Mr. Chairman, I hope we will be dealing with the presentation. The basic information is on this sheet now. In your presentation, will you make a comment on the fact that on the basis of this first-class mail is required to have a surplus of \$35 million in order to subsidize, somewhat in the neighbourhood of \$25 million, the losses in other classes?

● (4.00 p.m.)

Mr. J. A. MACDONALD: Mr. Chairman, I might carry on with the subjects that the Auditor-General has spoken about, namely the studies which were

undertaken in cooperation with the Departmental consultants. As the Postmaster General informed the House, we expect to have an up-to-date report on a revised basis using the best methods of apportionment of costs and revenues up to July of this year. You may know that our Department has been chosen, as one of the six or seven departments of government, to experiment with new methods of presenting the departmental estimates and revenues and costs to parliament, and we expect and we are recommending that this new updated cost ascertainment system become the basis of that presentation. In other words, I think you are all familiar with the proposals under the new system of presenting estimates of programmes and activities. We are proposing that the programme of the Post Office Department be only one, expressed in terms of the various classes of mails and services. So that we would present our estimates in a way that it would show the revenues and expenditures of each class of mail and services each year, and this would give you more information about the operation of the Post Office Department than you have ever had. We think this is the best way to explain the Post Office programme. Those figures are not available yet; we will have them by July and they will be available to the Auditor General and I presume that he can make them available to your committee.

In regard to Mr. Winch's question concerning the surplus of \$35 million he referred to in first-class mail being used to offset a loss on second-class mail, Mr. Nicholson, when he was Postmaster General, explained some of these difficulties of understanding the Post Office accounting because of the dual system of expenditures, payments from appropriations and payments from revenue. The money voted for the Department in appropriations is not a deficit of the Department as some people have often thought; it is merely that portion of our expenditures that happened to be voted. The other expenditures are authorized as expenditures out of revenue in accordance with the Post Office Act. These will be combined in the presentation under our proposed system of presenting our accounts, so that they will be shown together. In this way you will see a proper commercial statement of the Post Office Department, including expenditures from revenue and expenditures from appropriation.

Mr. WINCH: Could I ask a question just for clarification? Do I understand then that this presentation is not factual with regard to the surplus on first-class mail? I am not talking about any subsidies or payment from the government in estimates. Is it a fact that the \$35 million is the actual surplus on first-class mail and the \$24 million dollars approximately is a loss on other mail? I mean that is an actual figure, is it not?

Mr. J. A. MACDONALD: It is in our own accounts, Mr. Winch. However, this is part of the confusion because it does not include those inter-departmental charges of \$35 million dollars which should be apportioned to all classes of mail. First-class mail would bear part of that \$35 million dollars, that is buildings, accommodation and charges by the Comptroller of the Treasury and superannuation. These items are not in that figure, and in the presentation that we propose to make in the new form of estimates we will include those inter-departmental charges. Therefore, part of this \$35 million will be charged to first-class mail and will decrease that surplus actually, and will also be charged to second-class mail and increase that deficit. The surplus and deficit.

Mr. FORBES: Mr. Chairman, are we dealing with this item right now?

Mr. CHAIRMAN: We are dealing pretty well with this page here as circulated.

Mr. FORBES: My question has to do with transportation, and I will ask it when an opportunity comes.

Mr. THOMAS: I would like to ask how the Post Office department arrives at these costs. For instance, under first-class (letters) ordinary, you have receipts \$100 million plus; disbursements \$65 million plus, giving a surplus of \$35 million, plus. How do you arrive at these costs?

Mr. J. A. MACDONALD: Sir, we use a statistical sampling system. We sample the revenue of the various mails going through the mail; we select typical offices throughout the country and we sample them with regard to what classes of mail there are and what the postage is on them. In this way we apportion the revenue between various classes of mail. As you will appreciate, when somebody buys a postage stamp or sets a postage meter, we do not know what class of mail they are going to use it on. The only exception to that is your second-class mail which is paid on an individual basis, so we do know exactly what the revenue is on second-class mail. But outside of that, when you buy a postage stamp, you can use it on any class of mail. Therefore, we have to use a statistical system to apportion this revenue, and this is where we use the consultants as advisors on mathematical statistical methods and, with our own knowledge of the operation, we analyze the revenue.

We also analyze the expenditures. As an example take the salaries of clerks in post offices; they may handle every class of mail, but we have to use some method of apportioning their salaries between the classes of mail. In connection with the transportation system, a mail contract between two cities will handle practically every class of mail, but we have to apportion that in some manner. We use a sampling method to apportion those costs, and in this way we arrive at the revenue and costs of each class of mail. The statisticians and ourselves have determined that the accuracy of this is within plus or minus five per cent. It is something similar to operating a sawmill where you will be turning out lumber of all grades. When you run a sawmill you do not know what class of lumber you are going to get out of it, and you have to apportion your costs to the various classes of lumber; the principle is essentially the same.

Mr. BIGG: Is there no way of crediting the postal department, for instance, with free mail?

Mr. J. A. MACDONALD: Yes. We estimate this revenue by sampling the free mail that goes through the Ottawa Post Office, that is a regular sampling system.

Mr. BIGG: I know you can do it, but is the department in fact credited with the amount of service which they have done? For instance, the Post Office can send out a thousand dollars worth of mail to our constituencies. Is there any approximate credit to the postal department for this free service they are giving?

Mr. J. A. MACDONALD: Well, Mr. Henderson referred to this item and quoted the figure. On page 2 of the Postmaster General's report for 1965, he has shown the actual amount as \$4.3 million, and at another estimate it is \$4.9

million, but that was the estimate. So if you ever come across the difference in these figures, it is an estimate that we make of that amount of postage.

Mr. FLEMMING: My question, Mr. Chairman, is in connection with the second-class receipts and disbursements and has to do with the second item under the heading of "publishers". Is this the rate which the Post Office Department charges the newspaper publishers for distribution of their publications?

Mr. J. A. MACDONALD: This revenue figure is the amount of postage we collect from the publishers.

Mr. FLEMMING: That is really the largest item of deficit, is it not?

Mr. J. A. MACDONALD: I think that is our largest deficit on second-class mail.

Mr. MUIR (*Lisgar*): I wonder if we can have a list of the types of mail that are included in second-class mail.

Mr. J. A. MACDONALD: I suggest that you ask Mr. Pageau or Mr. McLachlan to answer that question.

Mr. PAGEAU: Mr. Chairman, in the second class publications, we include the daily newspapers, the weekly publications, and monthly publications. Those covered by rates listed in the Post Office Act are covered by statutory legislation and others are covered by regulations. Now when I refer to those covered by the statutory regulations, I mean those that meet the conditions laid out in the Post Office Act and which are entitled to the reduced statutory rate. In addition to this, you have reduced rates of postage covered by regulations which the Postmaster General has the power to regulate.

Mr. MUIR (*Lisgar*): Will this include second-class mail sent out by the public as well.

Mr. PAGEAU: No. I think the Auditor General mentioned that over a year ago we abolished this reduced rate of postage for the odd publication mailed by the public at the Post Office or in a box. Today the public has to pay the regular printed matter rate on transient publications which we call third-class rate. Now I would like to explain that with the newspapers we include periodicals, magazines and the like which are accepted under the same conditions as regular newspapers.

Mr. MUIR (*Lisgar*): This leads to another question. Then why do you include magazines?

Mr. PAGEAU: Because the legislation actually provides for certain conditions for recognition as a newspaper or periodical. The publication has to be published regularly, it has to have a proportion of advertising and editorial, and it must be published at least quarterly. For instance, I heard a gentleman ask whether this covers *Time* and *Reader's Digest*. The answer is yes. These are covered because *Time*, *Reader's Digest* and *Selection*, the French edition, actually do fall within this legislation. To go a step further, also covered is a special rate for publications from the United States mailed in Canada. This is at a rate covered by regulations, not by legislation. This is included in the overall deficit shown for the second-class mail.

Mr. MUIR (*Lisgar*): I notice that remissions were made to certain publications by the Governor-in-Council, and I think Time was included in there. Why were these remissions made?

Mr. PAGEAU: Mr. Chairman, I think the Auditor-General might wish to cover the subject of remissions separately.

Mr. HENDERSON: We will come to that Item next, under paragraph 77, Mr. Muir. The list is being circulated in advance in readiness for the discussion. That is where you expressed the wish to question the witnesses on some of these remissions, and that is why we circulated copies.

Mr. SCHREYER: Mr. Chairman, I overheard Mr. Pageau say that a newspaper or periodical must meet certain conditions before it is eligible for the reduced rate. One of the things mentioned was advertising content. Is there a certain standard of advertising, including quantity?

Mr. PAGEAU: Yes. The Act provides that at least a reasonable portion of the content shall be of a nature that deals with political matters or related topics. This means, for instance, that in order to receive a reduced rate of postage, at least 30 per cent of the contents of recognized newspapers must be of an editorial nature or non-advertising.

Mr. SCHREYER: Yes, I understand that. But I thought you said there must be a certain amount of advertising.

Mr. PAGEAU: No. I meant to say what I just said a moment ago, sir.

Mr. BIGG: It seems to me that the cost of a paper today to the consumer is nominal only, and I am wondering whether it is right to allow first-class mail to pay for free advertising. That is what it amounts to now. Let us take the average daily paper that comes out, which weighs about half a pound, it is all advertising; it is receiving a special rate here that is costing us \$21 million—I am referring to people who write letters and send parcels to their mothers and this sort of thing. It seems to me that our affluent society can stand a larger percentage of the cost of the postal department, and I wonder how we can bring this about. Is it a matter of making recommendations by us, or should this be dealt with in some other way?

Mr. CHAIRMAN: Mr. Bigg, the committee will likely recommend the same as we did before, namely, that second-class mail—

Mr. BIGG: —be jacked up a little bit.

Mr. FLEMMING: My question, Mr. Chairman, was only this. By what percentage amount would the second-class mail rate have to be increased to cover the deficit?

Mr. CHAIRMAN: Can you answer that, Mr. MacDonald?

Mr. J. A. MACDONALD: The revenue shown on your statement is approximately \$7 million compared to \$29 million or \$30 million, so you would have to increase the rates by 400 per cent to equal the revenue.

Mr. FLEMMING: Is it a matter of policy that this is not being done?

Mr. J. A. MACDONALD: Yes.

Mr. DAZE: Well, as Mr. MacDonald explained, we are just about concluding an extensive study which, I agree with the Auditor General, is taking quite a

long time; he has been bringing this in his report for years. Mr. MacDonald has given you an explanation concerning our cost ascertainment programme and the extensive study which has been conducted, and we hope to come up with certain recommendations sometime in July. These will be made to the Postmaster General and what happens to them is a matter for the Postmaster General and the Government. We just show the result of our study; we do not make decisions.

● (4.15 p.m.)

Mr. WINCH: That is the very question I would like to ask. You have a situation where you have a revenue of \$6,189,000 on second class mail of publishers an expenditure of \$27,900,000.00 which is a ratio of about four-to-one, as you pointed out. Is the decision to maintain this ratio of loss by giving service at four-to-one on your cost over revenue a matter of postal service, or a matter of government policy, as far as you are concerned?

Mr. DAZE: It is a matter of the Post Office Act; the act would have to be changed.

Mr. WINCH: Do you mean the exact amount as set forth in the Post Office Act?

Mr. DAZE: This is referring to the rates, that is a cent and a half a pound, a cent and three-quarters, three cents a pound, depending upon whether it is a daily, weekly, or monthly and so on.

Mr. WINCH: We are governed then by government policy and not by your office.

Mr. DAZE: Yes sir. We call these policies statutory privileges, and we have to abide by them until they have been changed by Parliament.

Mr. FLEMMING: My question is this: Does the deficit on second-class mail become progressively greater with the years, or is it being reduced?

Mr. J. A. MACDONALD: Proportionately. Mr. Henderson just gave you the figures for 1956-57. I did not have them with me and I am glad he quoted them. It shows 6 million to twenty-four million, which is 25 per cent. Whereas in 63-64, I think the \$43 million has the inter-departmental charges in it, does it not?

Mr. HENDERSON: No, I think not. There was a loss of \$35 million on second-class mail in 1964; you had revenues of \$8 million, so the cost of handling must be the sum of the two.

Mr. J. A. MACDONALD: I do not recall that it has the inter-departmental charges. But, whether it does nor not, the ratio is one to five instead of one to four. So I think the ratio is getting, let us say, worse.

Mr. HENDERSON: With the increase in costs, you would expect that, would you not?

Mr. J. A. MACDONALD: Yes, because costs go up and rates are fixed, so it is bound to get worse.

Mr. HENDERSON: All government costs have gone up.

Mr. SCHREYER: I just wanted to have it clarified whether second-class rates are fixed by statute or by regulations?

Mr. DAZE: Both. Most of them are fixed by statute. We have made certain changes in those fixed by regulations. For instance, with regard to the public who mail individual newspapers or magazines to friends or relatives, we charge them the third-class rate. This could be done by a regulation enacted by the Postmaster General, and that was done. I do not recall other cases where we changed the rates by regulations.

Mr. WINCH: The corporation is protected by law, but the individual is not.

Mr. BALDWIN: Mr. Chairman, has the proportion of receipts and disbursements in connection with first-class mail generally been maintained the same as it appears in the statement which we have from the Glassco Report? I notice that in 1959, for example, it shows receipts of \$100 million and disbursements of \$65 million, with a surplus of \$35 million. Is this a pretty fair reflection of how the ration between the disbursements and receipts has been maintained over a number of years?

Mr. J. A. MACDONALD: If I may answer that. I do not have the exact figures with me, but I think the proportion does remain approximately the same because, periodically, you will recall, we have increased first-class rates in order to keep this relationship.

Mr. BALDWIN: In other words, I suppose roughly what is happening is that when the deficit from second-class mail increases we have to raise first-class mail in order to carry the burden. This is the result, whether it is intended or not.

Mr. J. A. MACDONALD: You look at all classes of mail, sir. There have been changes over the past 15 years in various classes of mail; parcel post and third-class rates have been increased. On April 1, 1964 we increased the third-class rate from two to three cents which resulted in an increase in revenue in one year of \$12 million. We increased the registration rate in November, 1963 which, on a yearly basis brought in \$1,800,000. The special delivery rate went up and increased revenue by \$409,000. Householder mail brought in \$2 million, that is the unaddressed third class matter. Money order fees were increased slightly, C.O.D. fees, and also this second-class transient mail that we referred to. The parcel post rates have not been increased for some time. When was the last increase in parcel post, Mr. Pageau?

Mr. PAGEAU: That was before my time as director of postal rate classification.

Mr. J. A. MACDONALD: There was a slight increase in the international parcel post rates. We can increase all rates except first-class and statutory second-class by regulation. The first-class and statutory second-class rates are in the act.

Mr. BALDWIN: What I am getting at is that actually in the result the individual continues to pay the increase in charges in order to carry the burden which is imposed by statute in connection with second-class mail. This is in effect what is happening?

Mr. J. A. MACDONALD: I think you could say that is the effect of the restriction on second-class rates.

Mr. BALDWIN: You pointed out quite properly, of course, that the fixing of rates is a matter of statute which, in effect, is a matter of government policy.

What about the classification of second-class mail, that is to determine what is and what is not second-class mail. Do you have to go back to Parliament to get that changed or can it be done by regulation?

Mr. PAGEAU: Yes, Mr. Chairman. The Post Office Act defines exactly what is a Canadian newspaper or periodical for the purpose of the reduced rate of postage listed in the act. It says that the rates for those publications or periodicals which are not listed in the act, will be governed by the Postmaster General. For instance, as I mentioned before, there are certain conditions to be met. A copy of a statutory publication has to be addressed to a bona fide subscriber. In the regulatory rates you can send a publication at reduced rates of postage set by the Postmaster General which are lower than the rates on printed matter. Therefore, you have one rate provided by this legislation which we cannot change, but those rates set by regulation can be changed by the Postmaster General. For instance, the rate for publications which are published regularly, but which do not have bona fide subscribers, that is people who pay, for these publications, would be governed by regulations set by the Postmaster General.

Mr. BALDWIN: At this stage does your information permit you to decide or to distinguish this disbursement with respect to second-class mail; that is how do you divide it between newspapers and periodicals?

Mr. PAGEAU: The current study which has been undertaken and is nearing completion will actually determine exactly where the deficit on second-class is incurred, namely the type of publication, whether it is a daily mailed in Canada or publications such as *Time* and *Reader's Digest*. We will be able to determine this as a result of our studies.

Mr. BALDWIN: Without prejudice to what that may be, are you now in a position to indicate what that division has been in respect of editions in the past?

Mr. PAGEAU: Mr. Chairman, I do not think we are in a position to indicate that division. The reason why we undertook such a study was to be able to determine exactly the contribution of each category of second-class mail to the deficit.

Mr. BIGG: Very briefly, I know that in 1939 the rate of first-class mail for an ordinary letter was 3 cents and it is now 5 cents. That is a raise of roughly 66 per cent. I was just wondering whether second-class mail has come up in the same way or anything like it?

Mr. J. A. MACDONALD: I think we will deal with this later in the report.

Mr. FLEMMING: My question, Mr. Chairman, concerns these figures which were quoted for the year ending March 31, 1959 when the Post Office just about broke even. There was a surplus on a certain type of service and a deficit on another type of service and handling. Has the relationship in the last fiscal year for which you have figures been about the same, that is, one offsetting the other?

Mr. HENDERSON: Mr. MacDonald can correct me, but I believe they had a surplus, if we are using comparable figures for your most recent year, 1965, which was \$20 million. Am I right?

Mr. J. A. MACDONALD: Yes, sir.

Mr. HENDERSON: These figures do not include the \$35 million of accommodation expenses and the major services provided free; these have not yet been integrated into their accounting system. So, these figures are without those items and so is the \$20 million.

Mr. WINCH: However, I understand they are going to be, are they not?

Mr. HENDERSON: Yes, that is right, that is their intention.

Mr. FLEMMING: But they never have been?

Mr. HENDERSON: No. We bring them forward because they properly belong to the Post Office, the same as the Post Office is entitled to credit for the franked mail.

Mr. FLEMMING: Would it be fair to assume that since you raised the rates on registration and special delivery, that the account is about balanced under the heading of those two items?

Mr. J. A. MACDONALD: No sir. Even with the increased rates we will still have a loss in registration and special delivery. These are situations in a postal service where postal services sort of look upon registration and special delivery as a loss leader part of first-class mail. You group them with your first-class mail and charge your loss on special delivery and registration to first-class mail. Whether it is right or not, this has been the practice in postal administrations.

Mr. FLEMMING: It was only a comment. I have great respect for the efficiency of the special delivery; I think they really do a tremendous job. When you post a special delivery letter from the Centre Block, I have had them delivered within 12 or 14 hours to the eastern part of the country. I think the special attention they get is tremendous; the way they are picked out at the destination and then someone comes around and puts them on your desk. I think the Post Office Department are deserving of compliments in many respects, but this is one feature of their service which, I think, is tremendous.

The CHAIRMAN: I am sure the Committee will want to endorse what you have said, Mr. Flemming. We want to give all members ample opportunity to discuss this, but we have a lot to go over today while the officials are with us. Therefore, I would ask you to be as brief, concise and as sharp as you can on all questions and answers, and then we will be able to move along.

Mr. Forbes is next, then Mr. Winch, and Mr. Cowan is here as a visitor. As you know, in our new Committee system anyone is free to come in and take part in our discussions; they can do everything but vote in the Committee. Before we leave this sheet, Mr. Cowan, we will give you an opportunity to ask a question or two if you wish.

Mr. FORBES: Mr. Chairman, my question has to do with transportation and I think it will be in order at this time because I heard Mr. MacDonald say something with reference to it. Naturally, transportation costs will enter into the profit that a post office department will show. The information I wish to obtain is this: At the present time there are three sources of mail transportation, namely rail, truck and carrier service which is let by contract, and you have air service. How do you let the contract for mail transportation by rail when there is only one line coming into a town? How do you let the contract for air service when there is only one air line going into a town?

Mr. DAZE: Mr. Chairman, at this time I would like to introduce Mr. R. J. Cousens, assistant director of transportation. Mr. Cousens was late in coming here through no fault of his own; it was my fault.

Mr. R. J. COUSENS (*Assistant Director, Transportation Branch*): Well, actually the arrangements we have with the railway companies and the air line companies are arrangements which are permitted by order-in-council. In this respect we have dealt with both the major railways and the major air lines. The Postmaster General has special privileges in the area of granting contracts with common carriers, and it is through these arrangements that we negotiate with the railway companies and the air lines.

Mr. FORBES: Do the air lines carry second-class mail?

Mr. COUSENS: No, generally speaking they do not. There may be some cases where the only means of serving a particular settlement is by air and in those instances naturally we have to move all classes by air.

Mr. FORBES: Do you arrive at this rate which is to be paid on the basis of what you pay to other air lines?

Mr. COUSENS: Well, usually we try to negotiate what we call a ton mile toll rate with air lines. The rate that we pay to the railway companies is set by order-in-council and we have to work within the framework of this order-in-council.

Mr. FORBES: You refer to a ton mile. Suppose they carry a half a ton, then what is the situation?

Mr. COUSENS: Well, you can still relate it to a dollar value.

Mr. FORBES: Thank you very much.

Mr. WINCH: Mr. Chairman, my question does not relate to publication, but refers strictly to the sheet. As a matter of fact, I have two questions with respect to this sheet, one relates to lock box rentals because this is by regulation.

The CHAIRMAN: We have a section dealing with lock box, so we will come to that in due course.

Mr. WINCH: I also want to ask a question on the postal savings bank. Will that also come up later?

The CHAIRMAN: We have a section on that too. Mr. Henderson, I think you have a sample of second-class mail which you might like to show us.

Mr. HENDERSON: Mr. Chairman, I mentioned earlier that a change had been made by the post office which had favoured both foreign and Canadian publishers in which it reduced the revenue for second-class postage by an indeterminate amount. This was the relaxation of the requirements concerning inserts which formerly may have been subjected to a higher third-class rate of postage and are permitted while the entire mailing is accepted at the second-class rate. The best example I have is something that came out of a magazine. You are familiar with the coupons that are inserted in magazines, and I would ask Mr. Daze and his associates to check me, but the way we interpret them is this: If this coupon had been mailed in an open addressed envelope to your home the postage would have been 3 cents. If it had been mailed to the

householder—as they are often stuffed in the mailbox—it would have been 2 cents. However, by putting it inside a magazine, the magazine rate is one and three quarter cents a pound and if the magazine from which this was extracted, weighing 10 ounces, the postage that therefore follows on the entire magazine is just slightly over one cent. That is an illustration of how the thing works in practice.

Mr. PAGEAU: Mr. Chairman, with respect to this question of inserts in publications, for years we have allowed the inclusion in publications of, let us say, forms for subscriptions. However, the insert in a publication must either be bound in the publication, if the publication is bound, or in another publication, like a newspaper, it may be in loose form. We used to require that an allowance be made for pagination of these inserts. We are trying to follow the progress in the publishing industry and go along with it. It does not make any difference whether it is page numbered or not. We say this is the practice in the whole publishing industry, and we feel that the Post Office Department should follow their technical evolution. This is why these types of inserts, if they are bound in a publication as an advertising page, or in such a way that you can tear them out, are accepted. This is what the Auditor General pointed out. If these were mailed separately, the publishers would pay at the rate of $2\frac{1}{2}$ cents, 2 cents for householder, $2\frac{1}{2}$ cents in bulk or 3 cents individually. Now, Mr. Chairman, I do not know if the issue raised by the Auditor General is with respect to whether this was good policy by the Post Office Department.

Mr. HENDERSON: I would not seek to express an opinion on policy. I simply thought this example would be a useful one in understanding what is involved. This came out of a magazine that weighed 10 ounces and the postage on the entire magazine, from the standpoint of the Post Office Department's revenue, was a little over one cent.

Mr. BALDWIN: What does the insert say, Mr. Henderson?

Mr. HENDERSON: It is how to save 15 cents by purchasing a certain brand of merchandise.

Mr. WINCH: What would happen to the magazine itself? Does it have something to do with advertising, and not with the magazine itself?

Mr. HENDERSON: This has been torn out of a 10 ounce magazine. It reaches the home in the magazine.

Mr. WINCH: It is strictly advertising.

The CHAIRMAN: I think it brings to the attention of the Committee a problem that the Post Office Department has.

Mr. HENDERSON: My sole purpose in mentioning it here was so that you might appreciate what is going on.

Mr. FORBES: Mr. Chairman, is it a case where some companies would arrange with a magazine to include this advertising and it would not cost them anything?

The CHAIRMAN: You mean they got something for nothing?

Mr. FORBES: Yes. Is that the idea?

Mr. HENDERSON: I would imagine so.

An hon. MEMBER: I understand that newspapers and magazines, in order to comply with the regulations for second-class mail, must be addressed to some individual. How do you fix the rate on newspapers and magazines that are sold on the news stands?

Mr. PAGEAU: Mr. Chairman, we have nothing to do with publications sold on the news stands. We only deal with the rates for copies of magazines and periodicals sent by mail. These are either sent to bona fide subscribers and are covered by the statutory rates, or they are sent otherwise and covered by the regulatory rates set by the Postmaster General. But, we have nothing to do with copies sold on news stands.

Mr. BIGG: But you can still roll them up and send them at a special rate to your friends.

Mr. PAGEAU: Individually?

Mr. BIGG: Yes.

Mr. PAGEAU: You would have to pay the printed matter rates.

Mr. BALDWIN: Do you mean magazines that are sent from one city to another do not go through the post office.

Mr. PAGEAU: Well, you have news agencies that have nothing to do with the post office. They have their own distribution system. It is the same thing as the dailies in a city.

Mr. DAZE: Mr. Chairman, I think there are copies addressed to news dealers that go by mail.

Mr. PAGEAU: Mr. Chairman, I would like to clarify that. Copies of publications covered by statute that are addressed to bona fide news dealers are considered on the same basis as bona fide subscribers.

The CHAIRMAN: I have a couple of questions with regard to this sheet. I notice the Unemployment Insurance Commission has a deficit of \$125,000 odd. What would that be for?

Mr. J. A. MACDONALD: That is the difference between our costs and what we charge the Unemployment Insurance Commission for selling unemployment insurance stamps and, based on the cost ascertainment studies over the years, we have adjusted this rate with the Unemployment Insurance Commission. In one year you might find a slight deficit and in another year a slight surplus.

The CHAIRMAN: The Unemployment Insurance Commission pay you for selling their stamps?

Mr. J. A. MACDONALD: Yes, sir.

The CHAIRMAN: And you have not charged them enough?

Mr. J. A. MACDONALD: In that year we did not.

The CHAIRMAN: Why would you not charge them enough? I would over-charge them.

Mr. J. A. MACDONALD: Well, perhaps we have charged them a little too much on next year's report. We do not adjust this rate every year; we try not to. Incidentally, I think this brings up a very interesting point with regard to

rate setting which you will probably get involved in over the years. Costs go up evenly year by year, but I do not think you would want to see first-class rates, second-class rates and third-class rates adjusted every year, simply because you could not adjust the first-class rate from 5 cents to 5.25 cents. Therefore, you are going to have a situation where, for a few years, your revenue will be even and then suddenly it will go up like stair steps but your costs will go up in a straight line.

Mr. FORBES: What are the arrangements between second and third-class rates?

Mr. PAGEAU: Again, Mr. Chairman, I would like to explain that in order to be considered second-class, you must meet the conditions set out in the act with respect to what is recognized as newspapers and periodicals.

A publication mailed by you to your friend would be at the printed matter rate, and anything else, such as the circulars you get, householder mail, books, samples and printed literature, would be third-class. Second-class is confined to newspapers and periodicals.

Mr. FORBES: What is the differential in rates?

Mr. PAGEAU: In the second-class, sir, you have the per pound rate provided for by Parliament. Whereas the rate for third-class is governed by the Postmaster General and it is usually on a per item and per weight basis. Instead of the rate being one cent per pound or $1\frac{1}{2}$ cents per pound, it would be 3 cents for the first two ounces and one cent for two additional ounces.

Mr. WINCH: Now I know we got stuck during the last election; it was by regulation.

The CHAIRMAN: The other question I had related to the fact that the Auditor General said no figures are available to indicate the loss in handling second-class mail for the year 1964-65. Do you have that information on hand now?

Mr. J. A. MACDONALD: The year 1964-65 was an experimental year. We only had three cycles of our normal 13 cycle sampling within the year; we only had January, February and March, and we do not like to believe our own figures. We set it up as an experimental figure, but now that we have the full 13 cycles in the fiscal year 1965-66, which will be available in July, we prefer that you did not ask us to tell you what the figures were. We will have the 1965-66 figures that we will be able to rely on in July next.

The CHAIRMAN: What would be the cost of the services of the consultants that you hire?

Mr. J. A. MACDONALD: Well, altogether on the whole study—and they got involved in this second-class study last year—I think our costs right up date, from January 1964 until the present time, run around \$75,000; it will come to about \$80,000 and then they will be finished.

The CHAIRMAN: Mr. Cowan, would you like to ask some questions on this sheet?

Mr. COWAN: Yes, thank you, Mr Chairman.

On this sheet you show free mail under disbursements of \$4,620,958. How much of that free mail would you assign to the second classification where you are carrying country weekly newspapers free up to 2,500 circulation within 40 miles of the office of publication?

● (4.45 p.m.)

Mr. J. A. MACDONALD: There is none in that, sir. That free mail is under the franking privileges of the Post Office Act, and the free mail that goes on publications is not included in that. I do not think we can estimate for you the costs of free zoned publications that come under the statutory privilege of free zoned publications.

Mr. COWAN: I only asked the question because of the number of small town weeklies that come in everlastingly on the cost of the free mail to members of Parliament, but overlook, for some reason or other, the cost of the free mail of carrying their publications, 2,500 copies a week, up to 40 miles from the office of publication. Another question I would like to ask you under this item of second-class news and periodicals is this: Has any study been made by the Post Office Department or the Auditor General with respect to how many tons we move and how many thousands of miles every year these periodicals travel when coming in from outside of Canada as second-class mail for which we receive not a cent of revenue? I have in mind such mail as subscriptions starting in Denmark and going to a Danish family living in Grande Prairie, Alberta who have come out here as settlers, or a paper coming up from Rome, Italy to an Italian family who has settled in Calgary and they subscribe to a periodical. Has any study been made on the tons of this free stuff?

Mr. J. A. MACDONALD: Yes sir. Under the new system, when the report comes out in July, we will be able to tell you the cost of handling foreign publications that come into Canada that are charged as second-class mail. When I say that, I must emphasize that the only foreign publications that come into Canada charged as second-class mail are those from the United States. Under international postal regulations all publications from other countries, other than the United States, come in as third-class matter. So, they are not charged in these costs on second-class rates. However, we will be able to tell you the cost of second-class publications from the United States and the cost of Canadian publications going to the United States. It is a two-way traffic.

Mr. COWAN: Yes, about the balance of one horse and one rabbit in a rabbit pie, you know. Do you mean to say that a newspaper coming in from Paris, France, is not classified as a newspaper by the Canadian Post Office Department?

Mr. J. A. MACDONALD: That is right sir.

Mr. DAZE: In our regulations and in France this is called printed matter which, in our knowledge, is third-class.

Mr. COWAN: What about a daily newspaper coming in from Great Britain?

Mr. J. A. MACDONALD: The same thing applies.

Mr. COWAN: What do you mean by the "same thing"?
Is it foreign?

Mr. J. A. MACDONALD: It is charged to printed matter. In our printed matter the costs in the sheet which you have would include the cost of those newspapers and magazines from all countries except the United States.

Mr. COWAN: How many tons of printed matter are coming into Canada from other countries, other than the United States, for which we receive no revenue for services rendered?

Mr. J. A. MACDONALD: I do not know offhand. Will we have that information in the July figures, Mr. Pageau?

Mr. PAGEAU: No, Mr. MacDonald, because we have the total weight which we transport. For example, international letter post includes samples, literature for the blind, printed matter and books, and this is the basis of the international postal convention. This is included in the over-all letter post. We do not keep separate records. The letter post which includes all these articles is included in the reciprocity principle. This means that whatever you receive you effect delivery without terminal charges.

Mr. J. A. MACDONALD: However, Mr. Cowan, we will be able to give you this information eventually. We have a few of what we call sub-samplings to do on things like you have mentioned, which will be figuring out the international balance on incoming and outgoing of every class of mail. We have not had time to get around to it yet, but as we develop this new system we will break those items down and show how much is international in and out.

Mr. COWAN: How long have you been with the Post Office Department, sir?

Mr. J. A. MACDONALD: Since 1949, sir.

Mr. COWAN: I have been asking this same question for 30 years and I am glad to know that we are going to get around to it in 1966.

Mr. J. A. MACDONALD: We are getting closer.

Mr. COWAN: I am trying to draw the attention of the Auditor General to the fact that the Canadians carry a tremendous amount of printed material, if that is what you want to call it, or newspapers or magazines, from the United States without any compensation whatever. Take Denmark again as an example, the Danish publisher gets the revenue for the subscription and he pays the Danish post office which, I presume, has to pay for the cost of transporting the material. Perhaps they pay the subvention to the boats crossing the Atlantic, but once it hits Halifax and goes to Calgary we do not get a cent. It is more than disgusting to think that Canadian publishers have to compete with foreign periodicals in this way on which the Canadian publisher is asked to pay the postage charge from say Halifax to Calgary, and then he has to compete with that periodical for the person's time in Calgary. I did not know until now that you call other publications, other than the United States, printed matter. I understood they were considered newspapers, the same as newspapers or magazines in the United States.

There is one further question I wanted to ask you. Someone here today said there was a study being made with respect to the creation of these deficits. Is any consideration being given to the distances that these mail subscriptions travel in your investigation into the source of the deficits?

Mr. J. A. MACDONALD: Yes sir. In our cost study on second-class mail, which we will be reporting on to the government, we have taken this into consideration.

Mr. COWAN: What distances are you working on, 200 miles, 400 miles or 600 miles?

Mr. J. A. MACDONALD: We are not getting into a zone basis. It is more in the nature of a grouping of publications by character, and one rate for all their copies is the basis of our cost study.

Mr. COWAN: Some years ago, and I have been associated with the post office fairly well for 36 years, I sat in on discussions when they started air mail postage in Canada. Can you answer this question for me: In those days the Post Office was pretty hot under the collar—and I did not blame them—because the Trans-Canada Air Lines—some French Canadian can correct me, if he wishes, to say Air Canada, but it was Trans-Canada Air Lines in the days I am talking about—under Symington, said to the Post Office Department, “We want so much money to carry this mail.” I heard him say it myself. “I am going to have a profit on the Trans-Canada Air Lines; I am not going to have a deficit, so I need so much.” The Post Office was stating that the rates by air mail were too high.

Can you tell me whether the rates you pay the air lines today are negotiated, or are they imposed on you by the air lines without any negotiation by the Post Office Department? I have a high regard for the Post Office Department, but I have seen them shoved around before today.

Mr. COUSENS: Mr. Chairman, in answer to this question, I should mention that we have had a contract negotiated with Air Canada which has been adjusted from time to time. It is the type of contract that as the volume increases the rate per ton mile decreases. Do you follow me?

Mr. COWAN: You say it has been adjusted. Adjusted by whom, the Post Office or by the air line operators?

Mr. COUSENS: Well, again, initially this came by order in council and when we wish to renew our arrangements we make a submission through the Postmaster General to Treasury Board for a renewal or a continuation or an adjustment to take a heavier volume of mail.

Mr. COWAN: Is it fair for me to ask the question: Are the officials of the Post Office Department satisfied with the rates you are paying the air lines or do you still feel imposed upon as you were for many years?

Mr. COUSENS: Well, let me put it this way: Some people think we are never satisfied and certainly if we could get it for less, we would.

Mr. COWAN: That is a very good answer.

The CHAIRMAN: On a line where Canadian Pacific operate, do you go to them for a competitive price?

Mr. COUSENS: We do have contracts with the Canadian Pacific as well in the trans-pacific, trans-atlantic, north atlantic and—

The CHAIRMAN: My question is this: If there is a line where Air Canada runs and Canadian Pacific runs, do you ask both those air lines to quote on delivery of mail?

Mr. COUSENS: No, we do not because at the present time the contract we have with Air Canada permits us to carry the mail at a lesser cost than the opposition or the opposing air line would be prepared to accept.

Mr. FORBES: Well, how do you know that?

Mr. DAZE: The more volume we give Air Canada the lower our rate becomes because of this arrangement per ton mile.

Mr. COWAN: The rate was high to start with.

The CHAIRMAN: My question is this: Have you asked for tenders, between Toronto and Vancouver, from Air Canada and C.P.A.?

Mr. COUSENS: No sir, we have not.

The CHAIRMAN: How do you know then that you are getting the best possible price?

Mr. COUSENS: Let me put it this way: The construction of the method of payment comes within certain groups or units of volume and, depending on the volume for 1,000 or 10,00 ton miles, the rate to Air Canada would not reduce materially; whereas the rate to Canadian Pacific Air Lines would certainly be an increase, it would cost us more.

Mr. COWAN: I would like to make the observation that I would sooner see the Post Office employees get an increase in wages, rather than see Air Canada produce a profit just because we have to pay too high a rate to the air lines to carry the mail that they are now carrying for the Post Office Department.

I have just one other question. I believe it was Mr. Winch who was talking about the \$35 million surplus in first-class mail where the receipts were \$100 million and the disbursements \$65 million. Well, surely you must realize that we have to get profit somewhere to subsidize the likes of the McConnells, the Siftons, Lord Thompson of Fleet, the Bassetts and the Eatons.

Have any recommendations been made by the Post Office Department for increasing second-class mail, or does it depend entirely on the members of Parliament to dream up an increase in second-class mail rates?

Mr. DAZE: Well, as we said, the study is almost concluded; it will be submitted to the Postmaster General. What happens beyond that is not for us to say.

Mr. BALDWIN: This Committee has made recommendations along those lines for some years. Arising out of that, Mr. Chairman, may I ask this question, which is more in the nature of a suggestion. Could you, as Chairman, together with the steering committee, give some thought to inviting the representatives who cover the periodicals and the newspaper associations to appear before the committee. They might be able to explain to the committee in more detail some of the benefits which obviously must flow to the public, and which at the present time escape me, in order to provide for this particular rate. We have been discussing this with the post office people for some time. It might well be that we might be persuaded. There are a great many benefits which could accrue to the public from these lower rates. Possibly the representatives of these people might like to appear before us and tell us about them.

Mr. WINCH: I would agree with that, Mr. Chairman, if they would also explain the benefits which would accrue to them.

The CHAIRMAN: All right, Mr. Baldwin, we will take that suggestion to the steering committee.

Mr. BIGG: Does Air Canada have, shall we say, a capital expenditure with respect to the handling of this mail which is a factor? In other words, has the postal department invested money in facilities and so on, as our airports, which might be a loss if we changed the contract?

Mr. DAZE: I do not think so, Mr. Chairman. Coming back to the question of salaries, I would dare say, sir, that the question of rates or deficits in the post office has had no bearing on salary increases with employees. This is entirely a different matter, handled by the pay research bureau of the Commission.

Mr. BIGG: Are salaries not checked in your over-all balance sheet?

Mr. DAZE: Salaries, of course, yes. We did not set the pay raises and the like. I am saying that I do not believe that the extremely low salary increases given to postal employees in the first place were due to either a deficit or a surplus in the post office.

Mr. BIGG: But, as was said, if the post office operated at a profit, higher wages would make that profit look less, at least, on the balance sheet?

The CHAIRMAN: Mr. Cowan, can you conclude your questioning.

Mr. COWAN: I want to ask one other question. Have you any figures to show the comparative cost of handling printed advertising going out to the homes individually as compared with the cost of carrying that advertising in newspapers and magazines? For instance, in daily newspapers with over 10,000 circulation, I think your rate is 4 cents a pound on the advertising content. If it is 4 cents a pound on the advertising content, what is it when it is sent directly by an advertiser to the householder?

Mr. J. A. MACDONALD: Our cost is approximately the same as our rate, about 2 cents per item unaddressed and 3 cents addressed.

Mr. COWAN: That means, from what Mr. Henderson produced today with that little coupon which is part of an advertisement in the paper or magazine, I presume, that there is a tremendous subsidy to the advertising department of a newspaper or a magazine compared to the rates they are asked to pay when they mail direct to the household. The reason I bring the matter forward is, that I hear many printers complain that when they go to a manufacturing firm or a retail store and ask if they would not be interested in putting out 100,000 circulars such as this, advertising their wares, the chap will say, "Well, the cost of distribution by mail is so high, I can put the same kind of an ad in the newspapers and get distribution practically for free."

I was just trying to emphasize that I do believe, Mr. Henderson, that the cost of carrying advertising through the mails should be the same no matter how that advertising comes, whether it comes as a newspaper advertising page, or a magazine advertising page, or a piece of direct mail, as you and I know it. I think you have put your finger on a very vital point, particularly if we are going to try to make the Post Office Department pay its own way.

I have one more question to present. How do you lose on fourth class parcel post? You have foreign receipts of \$4,675,000 and disbursements of \$5,393,000

which results in a loss of \$718,000. Are the rates not high enough to cover the service rendered in foreign fourth class parcel post?

Mr. J. A. MACDONALD: A year ago, sir, we increased the international parcel post rates so that we would more than cover our costs.

Mr. COWAN: I realize these figures are six or seven years out. That is all, Mr. Chairman.

The CHAIRMAN: All right, Mr. Cowan. Thank you for your contributions.

Mr. MUIR (*Lisgar*): May I ask one further question? In regard to the second class mail, am I given to understand that the weekly newspapers are confined to a distance of forty miles on this rate?

Mr. DAZE: Yes. Weekly newspapers published in towns with less than 10,000 population may send up to 2,500 copies free within a radius of forty miles of the office of publication, as the law stands now.

Mr. MUIR (*Lisgar*): I think this particular thing could make sense because you are talking, in many cases, about just a one-man newspaper, but I cannot see where we should be subsidizing the larger newspapers for sending their advertising in this way.

Mr. DAZE: Mind you, this only applies where the population is less than ten thousand, so you do not have a very large centre. We have one example to consider here.

Mr. HENDERSON: Mr. Chairman, paragraph 106, which will be coming up presently, covers the very point you have raised, Mr. Muir, and is a very interesting example.

The CHAIRMAN: Now, gentlemen, page 39 of the Report of the Auditor General for 1964, section 77, which has to do with remissions, provides:

77. *Waiving of postage charges.* Section 22(1) of the Financial Administration Act reads:

The governor in council, on the recommendation of the Treasury Board, whenever he considers it in the public interest, may remit any tax, fee or penalty."

The Post Office Department has at no time made use of this section. Instances occur from time to time where for one reason or another, but particularly because the second class mail regulations are extremely complex, errors in the application of postal rates have resulted in under-collections of postage revenue. When such an error is detected the practice has generally been to impose the correct rate from the time the error was noted and to forgive the past.

The Post Office Department considered the waiving of charges for postage to be an administrative discretion, but in our opinion it is not within the Department's power to exercise discretion in waiving a charge for postage that is properly payable. Any relief to be given is the prerogative of the governor in council under Section 22 of the Financial Administration Act.

The CHAIRMAN: You will recall that we spent quite a bit of time talking about this the other day, and we directed some questions to Mr. Crowley of the Auditor General's Department, and perhaps, now that you have before you a stencilled sheet of these remissions, you might want to have one or two questions directed to Mr. Crowley, or to the Post Office officials, and then we will move on to the next section.

Mr. MUIR (*Lisgar*): Are these remissions that were made to these publications under this section?

Mr. HENDERSON: You may remember that the Post Office Department had been waiving charges for postage which it viewed as being within its powers of administrative discretion. However, we gave it as our opinion that section 22 of the Financial Administration Act should be brought into play here because it was not within the power of the Post Office to exercise discretion itself. I advised the committee that the Post Office had accepted our view, and during the past year, as far as we are aware, such remissions had, in fact, been made the subject of orders in council, issued under section 22 of the Financial Administration Act. Consequently, we can regard this matter as having been satisfactorily disposed of.

Nevertheless, in the discussion you asked if you could have a listing of the remissions that had been made and this was tabled at a later meeting. However, due to the delay in getting the transcript, we passed around today a list of these remissions in order that you might have them before you while you have the witnesses present, because you had some questions regarding two or three of them.

Mr. MUIR (*Lisgar*): Well, while I can agree that it is within the power of the governor in council to remit these charges, I do not see why they should not be billed for them if there has been an error. If the error were the other way, I am certain the Post Office Department would be requested to make a refund.

Mr. HENDERSON: That is a question which I think should be addressed to Mr. Daze and his associates today because it is on the recommendation of the Postmaster General to the Treasury Board that the governor in council issues these remissions.

Mr. MUIR (*Lisgar*): Let me put the question this way, then: An error has been made and the publisher has been undercharged, so rather than send them a bill for the amount that he has been undercharged, it is turned over to the governor in council in order that it can be taken as a remission of his charges. Is that right?

Mr. DAZE: I do not think these cases which we are talking about are undercharged, because then I would say we would collect, and I think we would be successful in collecting. However, perhaps I should ask Mr. McLachlan to elaborate on these remissions.

The CHAIRMAN: Let us pick out one example, Mr. Muir, that you want a report on.

Mr. MUIR (*Lisgar*): Well, just before I do that, in Section 77 of the Auditor General's report, it says, Instances occur from time to time where for one reason or another, but particularly because the second class mail regulations

are extremely complex, errors in the application of postal rates have resulted in under-collection of postage revenue.

It also says:

When such an error is detected the practice has generally been to impose the correct rate from the time the error was noted and to forgive the past.

Well, why would you forgive the past? If the man owes you money, why do you not collect it?

Mr. DAZE: I must apologize and call on Mr. McLachlan to explain this. I thought we always collected.

Mr. McLACHLAN: Perhaps the best way to tackle this would be to take any one of these cases that are listed here as an example.

The CHAIRMAN: Well, take No. 11, the Sun Publishing, as a Canadian example, the remission was \$1,276.

Mr. McLACHLAN: The two issues in February, 1965, of the various newspapers published by the Sun Company had supplements which were not permissible enclosures under our regulations because they were not identified as supplements with the newspapers with which they were enclosed. At that time there was no question that they had to bear the title of the paper in which they were enclosed. The Sun Company were, therefore, required to pay postage on the supplements at the third class rate and the difference between the postage they paid and that which they would normally pay on these particular issues was the \$1,276.

They represented to us that the reason they failed to comply with the postal requirements was due to an oversight on their part. In other words, it was in good faith that they published the issues without meeting the definite requirements of the postal regulations. Bearing this in mind, and also the fact that our postal handling was not affected one way or another, we made recommendations to the governor in council that the postage which had been paid in these instances should be refunded or remitted in view of the difference between the second class normal rate and the postage that was paid at the third class rate.

Mr. MUIR (*Lisgar*): That is a case of overpayment. Let us have an example of underpayment where they have not paid you enough postage. They paid you too much postage at that time, is that right?

Mr. McLACHLAN: They paid us what was due under a strict interpretation of the postal regulations. This is true in the case of all these remissions that are listed here. In each case postage was collected at the rate which was applicable under strict interpretation of the postal regulations. However, there were other cases where the postal regulations were not met for some reason or another; in this case there was an oversight on the part of the publishers; in other instances it was claimed they did not know our regulations. This happened to be so in the case of a number of American publications who sent mail here under the mailing in Canada Regulations and they did not know our requirements.

Mr. BIGG: I have personal knowledge of this. This paper includes the Bonnyville Tribune and the Lac-la-Biche Herald which is a weekly paper, and

the offending part is the weekly magazine section which they give you with a daily paper. This complaint could easily be fixed by merely having a little stamp saying, "Published on behalf of the Sun Publishing Company", and this would take care of the breach of the regulations. I think that this would bring the matter well within the Act; and it is quite reasonable that it was an innocent error. It is just a matter of putting a little rubber stamp on the article, saying, "Published for the Sun Publishing Company" and then it probably comes under part of their weekly distribution system.

Mr. CHAIRMAN: The next section is 78, the Department decision not to dismiss an employee, which reads as follows:

78. *Departmental decision not to dismiss an employee.* Section 57 of the Civil Service Act provides authority for the suspension of an employee during an investigation of alleged misconduct or incompetence. The procedure upon completion of the inquiry is prescribed in section 59 of the Act which states:

"59. (3) Upon completion of the investigation or proceedings, as the case may be, the deputy head shall

(a) if as the result of the investigation or proceedings he is satisfied that the employee has been guilty of misconduct or incompetence

(i) recommend the dismissal or demotion of the employee, or

(ii) suspend the employee for a further period not exceeding six months; or

(b) if as the result of the investigation or proceedings he is not satisfied that the employee has been guilty of misconduct or incompetence, rescind the suspension retroactively to the time it was first imposed."

The officer in charge of a postal station was suspended under section 57 of the Civil Service Act pending investigation of a fire and alleged robbery. When an audit revealed extensive falsification of the accounts, the suspended officer admitted falsifying the cash accounts and accepted responsibility for a shortage of \$2,156. The Department rescinded the suspension and retired the employee on the basis of his having reached 60 years of age (with the consequent entitlement to an immediate annuity under the provisions of the Public Service Superannuation Act) on the understanding that he would reimburse the Crown for the deficiency. Collection was made from the annuity.

If the employee has been dismissed for misconduct, his entitlement to a superannuation benefit, other than a return of contributions, would have been conditional upon a decision of the Treasury Board. In view of the provisions of section 59 (3) (a) of the Civil Service Act, quoted above, this would appear to have been the proper course of action.

Now, Mr. Bigg, you had questions with regard to this matter the other day, and we asked you to withhold further questions until the Departmental officials were here. Would you like to pursue the matter, or ask any other questions?

Mr. HENDERSON: I recall that we did discuss this at some length, Mr. Chairman. You will remember the case of an officer who was in charge of a

postal station and was suspended pending investigation of a fire and robbery. It was not that I criticized the employee's treatment so much as the fact that the due process of the law, as provided by the Treasury Board and the Civil Service Commission, had not been followed. You indicated you might wish to question the witnesses. I think we rather covered it as a matter of fact.

Mr. BRGG: I believe we did concerning the question asked about the implication of arson, except I thought perhaps the officials had been extremely lenient.

The CHAIRMAN: Would the department like to add anything further?

● (5.15 p.m.)

Mr. DAZE: I would be glad to. In the first place, we plead guilty to not having followed regulations, but the Civil Service Act had just recently been changed at the time and I must admit that it took two or three months to get all the implications, and this is how we took action without going to the proper authorities. I do not think this has happened since. This man in question had forty years of service and had an unblemished record. There was both a fire and a robbery, but our legal department advised that we did not have enough evidence to prosecute. The man agreed to make restitution, and so we carried him on pension after four years.

The man had high blood pressure and angina, he was quite a sick man; he had been operated on. We could not question him for some time and the doctor would not let us approach him. He was operated on for a growth on the liver and, as I say, he had an excellent record for 40 years and it was rather inefficiency or stupidity on his part that he became involved.

Mr. BRGG: I am glad that departmental discretion was used, but I would not want to see this happen again.

Mr. DAZE: Well, no; I do not think it will happen again.

Mr. HENDERSON: Mr. Chairman, there are only a few more paragraphs to deal with. Perhaps we might turn to paragraph 106 now.

The CHAIRMAN: Gentlemen, we are through with the 1964 report.

Mr. HENDERSON: If you will turn to page 68 of the 1965 Auditor General's Report you will see paragraph 106, which is headed "Second Class Mail", and it deals with the free mailing privileges. I think this is the point Mr. Muir brought up. The paragraph reads as follows:

106. *Second class mail—free mailing privileges.* Section 11 of the Post Office Act, R.S. c. 212, permits newspapers and periodicals that are published less frequently than daily but not less than once a month, to mail a maximum of 2,500 copies per issue free of postage, subject to the following conditions:

- (1) addressees must be bona fide subscribers or newsdealers;
- (2) addressees must reside or do business within a 40-mile radius of the office of publication;
- (3) the office of publication must be located in a city, town or village with a population of not more than 10,000 persons.

The 1961 census indicated that there were 598,000 people in the province of New Brunswick and that the town of Campbellton had a population of 9,873. In 1963 the Dominion Bureau of Statistics estimated the province of New Brunswick to have a population of 614,000 persons.

The Centennial Commission, which is authorized to make grants on a per capita basis to provinces for local projects of a lasting nature, accepted the published intercensal estimates of the Dominion Bureau of Statistics for the year ended December 31, 1963 which show the population for New Brunswick at 614,000. Accordingly the province using the 614,000 total, revised the population figures of the towns and cities, giving Campbellton a population of 10,130.

In administering section 11 of the Post Office Act, the Post Office Department, upon learning the basis upon which centennial grants were to be made, cancelled the free mailing privileges previously enjoyed by three newspapers in the area. However, the publishers protested, maintaining that the 1961 census figure of 9,873 should stand and the department re-instated the free mailing privilege.

In this note the circumstances are described under which newspapers and periodicals that are published less frequently than daily, but not less frequently than once a month in centres of not more than 10,000 population, may mail a maximum of 2,500 copies per issue free of postage provided certain conditions are met.

It came to our attention, in the course of the audit, that for the purposes of distributing grants made by the Centennial Commission, the province of New Brunswick considered the town of Campbellton to have a population in excess of 10,000—actually 10,130. We drew this to the attention of the post office, and the purpose of this note is to draw attention to the manner in which the department cancelled the free mailing privilege previously enjoyed by three newspapers in the province of New Brunswick. And how, when the publishers protested, the department reinstated the free mailing privilege.

Mr. BIGG: I think in this case they are interpreting the census figures liberally and I believe that is the spirit of the statute. We would not hold down the publications here to 10,000 residents, plus or minus—I know it is 130 here. With people coming and going, you would have the postal regulations and so on changing every time a family left town.

Mr. DAZE: Mr. Chairman, the city of Campbellton argued that their population was under 10,000; I think Mr. McLachlan will have the exact figures.

Mr. PAGEAU: The census figure was below 10,000 in 1961 but we heard from the town clerk that the population had gone beyond 10,000. So when we abolished the free area privilege the member of parliament represented to the department that this was not true. We learned afterwards that the provincial and municipal authorities of Campbellton had said that the population was beyond that because this had some reflection on the amount of the grants they could get for the centennial celebrations. But, actually, for our purposes, there were no figures on which to base the official statistics of the population of Campbellton. So we went back and said, "The only official figures we have are those published by the Dominion Bureau of Statistics".

Now, as I said the figure of over 10,000, which was arrived at, may have been reasonable according to the provincial government because they have to distribute their populations in some cities to satisfy certain grant requirements, as we understand it. However, there was no factual basis on which we could say the population was beyond 10,000 in Campbellton.

Mr. WINCH: In other words, we now have the evidence that a municipality or a city adjusts its population according to the grants that become available, up or down?

Mr. PAGEAU: Excuse me. I would not say this, Mr. Chairman.

Mr. WINCH: I said it.

Mr. PAGEAU: Yes. We were trying to see if the figures met the requirements in the Post Office Act which say 10,000. Above 10,000, they are not entitled to certain privileges. As soon as we found out this information we set higher rates, and right away we received some protests. Then in view of the facts, which the Auditor General mentioned, that had no basis, we felt that we must use the official statistics that we had at our disposal. Now, we still do not know whether the population is more than 10,000.

The CHAIRMAN: What census figures are you going to use from here on in?

Mr. PAGEAU: The census figures were 9,873.

The CHAIRMAN: I know, but are you going to use the 1961 census figures in all cases, or are you going to use estimates of the Dominion Bureau of Statistics?

Mr. PAGEAU: We will use the 1966 census which is being done now.

The CHAIRMAN: You will use that figure throughout.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, I do not know what happens in the other provinces, but in the province of Ontario each municipality makes a census every year. It goes along on their assessment roll and they are added up. Possibly that would be available in New Brunswick.

Mr. DAZE: Well, it did not look like it. They said their figures were lower than 10,000. Maybe they do have the same thing, I do not know.

Mr. WINCH: You said when we came to the centennial grants.

Mr. DAZE: I did not say that either.

The CHAIRMAN: Paragraph 107, dealing with city transportation services, says:

107. *City transportation services.* In an examination of payments by the Post Office Department for street letter box clearance in one large city, we observed certain factors of time, trips, etc., as set out in the contract specifications that did not correspond with the actual performance. It appeared that running time plus time allowances as scheduled in the contract and on which payment is based was substantially in excess of the actual hours worked. Our test, projected on an annual basis for that city, indicated that idle time totalled some 19,000 hours, costing an estimated \$68,000.

Time allowances are designed to compensate the contractor for unavoidable delays due to traffic congestion, adverse weather conditions, detours, etc., as well as minor extensions or changes in routes. The department conceded there might be a tendency for such allowances to be extended beyond reasonable limits and undertook to have a check made of the various routes with a view to adjusting the schedules as required.

The department has since informed us that this survey revealed certain anomalies in the service provided, in addition to inconsistencies in time allowances. The entire collection service in that city has been redesigned to eliminate these anomalies and to permit an integrated work flow. A saving of approximately \$38,000 per annum has resulted.

Mr. HENDERSON: This paragraph, Mr. Chairman, describes several factors noted by my officers during an examination of payments made for street letter box clearance in one large city. We discussed the results of our findings with the post office which then proceeded to carry out its survey to see how the losses we had noted might be reduced.

As this note states, the entire collection service in the city in question has been redesigned to eliminate the anomalies and to permit an integrated work flow, all of which is saving approximately \$38,000 a year.

Do the members have any questions on this?

The CHAIRMAN: I am sure they will have questions on it. I was under the impression that the letter box collections in a city were done on a mileage basis. I think they are in a city of the size that I come from.

Mr. DAZE: I admit, some are, Mr. Chairman, but it is a matter of details.

Mr. COUSENS: Mr. Chairman, in regard to the question that has been asked, at one time we did contract on a per mile basis. In 1957 we found, because the cities were growing on the outskirts, the unproductive mileage that was being travelled to reach some of these boxes made it a poor basis for payment to the contractor, and at this time we developed a system for payments on an hourly basis. The schedules were set by actual running time and a small allowance was allowed for the purpose of taking care of delays due to traffic, detours, one way streets, weather conditions and so on. Since that time we have been—until very recently, let me explain—awarding contracts on a per hour basis. This, of course, relates closely to payment of individuals for performance of work. I am thinking now in terms of the couriers who work for the contractors. Recently we have developed a new type of service which we think perhaps is the best yet in that it combines the delivery of parcel post, special delivery, and the clearance of street letter boxes on a per item basis. On this basis there are certain advantages to be gained in the way that a single contractor can get higher utilization of his vehicles and he can also move his men around from one type of service to another without incurring periods for which he must pay them for not actually working, which is called waiting time. From our standpoint, naturally, it is less costly because in this way the schedules are arranged to fit in so there is continuous work for the men and we are not paying now for waiting time of less than one hour or periods where the type of situation that occurred in Toronto came about.

The CHAIRMAN: Will this overcome what is drawn to our attention here, where the fellow made more money out of his idle time than the actual time he worked?

Mr. COUSENS: Oh, yes, it will overcome this.

The CHAIRMAN: Well, how do you account for this estimated figure of \$68,000 getting by your department and your attention?

Mr. COUSENS: This figure includes time allowance which it built into the contract, that is the time allowance I spoke of for delays due to traffic jams, poor weather conditions and so on. Now, under the per item basis, of course, there is no time allowance at all because it is up to the contractor to do the job as quickly as he can. The more efficient his couriers are and the quicker they can get their job done, then the less it costs us.

The CHAIRMAN: Now, coming back to my question, in my city the postmaster told me just two weeks ago—I was talking to him about moving collection boxes—that it does not matter where you put them or where they are, the collector is paid on a per mile basis.

Mr. COUSENS: Well, it will depend on—

The CHAIRMAN: Is this right or wrong?

Mr. COUSENS: It will depend on where you live. There are some of the old type contracts around. But if we are talking about, for instance—

The CHAIRMAN: Guelph is a city of 45,000 people.

Mr. COUSENS: Well, this will be changed over when the contracts expire. We cannot change it over in the middle of a contract because this is tantamount to taking a contract away from a man.

Mr. DAZE: To sum up, we still have some on mileage, we still have some on an hourly basis, but we are going to the per item system which we think will be the best.

Mr. COUSENS: I would suggest that this contract has been in effect with the same person for quite some time.

The CHAIRMAN: Oh, yes, I imagine it has.

Mr. WINCH: Mr. Chairman, are you able to make a city to city survey, or to use some sort of criterion for arriving at whether a man is wasting his time?

Mr. COUSENS: Well, we have to do a survey of all the routes; we have to time every single one. At that time we reschedule where we find there is waiting time, and bearing in mind that this might only be done once during the course of a contract. There will be changes that will take place which may reduce the actual running time, and in this respect then the situation that developed in Toronto may come about.

Mr. WINCH: What do you do about winter conditions where a city might be struck with a long period of bad weather? Does the contractor lose out on that?

Mr. COUSENS: Not completely. There are ways and means of paying for extra service performed, if it requires extra hours to do the job.

Mr. WINCH: He would have to apply over and above his contract for this sort of thing?

Mr. COUSENS: This is true.

Mr. BIGG: Does he have any way to get efficiency experts out, or does he just get so much money for so many hours of energy? I would like to see some adjustment, if he did in fact have to put himself out.

Mr. COUSENS: Well, there would be provision for this.

The CHAIRMAN: The Committee has the assurance that under your new system we will not find similar items in the next report of the auditor general.

Mr. COUSENS: Well, as I say, I would not be prepared to say you will not because we cannot put them all in at once.

The CHAIRMAN: We now come to section 108, postage stamps destroyed:

108. *Postage stamps destroyed.* During the year the Post Office Department purchased postage stamps to a total face value of \$109,-470,000 at a cost of \$1,323,000. In the same period, stamps having a face value of \$5,272,000 and an estimated cost of \$64,000 were destroyed or held for destruction at the year-end because they were spoiled in handling, unsaleable or returned from postmasters in lots too small for economical re-issue.

Included among the stamps destroyed or held for destruction were approximately 53 million stamps, costing \$16,000, of a special 1964 Christmas issue of 412 million stamps purchased at a cost of \$125,000. The Department over-estimated the demand for these stamps and was precluded from using the issue in another year because the stamps were dated "Christmas 1964".

Mr. HENDERSON: In this note, Mr. Chairman, we indicate a non-productive loss of \$16,000 resulting from the destruction of stamps dated "Christmas 1964" which could not be sold.

The CHAIRMAN: There will surely be some questions on this item.

Mr. BIGG: As a stamp collector, I might say that this particular issue of Christmas stamps is now in short supply to collectors, and I wonder whether they could not have been put in a philatelic branch at a considerable savings to the department. I do not know what went on here, but, as I say, this particular issue is hard to get, as I understand it. It might have been that the philatelic branch could have cut this loss—it is only \$16,000—and some of these stamps might have been useable or saleable.

Mr. J. A. MACDONALD: The department would like to explain to the Committee what has happened here, because on a reading and the surface of it, it would take some explaining.

Mr. DAZE: Mr. MacDonald will be glad to explain what happened and what we propose to do in the future.

Mr. J. A. MACDONALD: In regard to your question, Mr. Bigg, we sold \$139,000 worth of these stamps in the philatelic section.

Mr. BIGG: That does not mean that they are not fit for resale?

Mr. J. A. MACDONALD: Well, I think we still have them. I did not check this, I am sorry, but I think we still have them in the philatelic section, if you want them.

Mr. BIGG: That was not my complaint. I was not complaining as a stamp collector; I was complaining of the possible loss of revenue to the government. I thought perhaps there had been an oversight and that they could have cut the \$16,000 loss. By the way, of course, stamps sold this way are a direct gain.

Mr. J. A. MACDONALD: If we sell four or five million stamps to philatelists, that is a big sale, but we produce three or four hundred million of these stamps so that you cannot dispose of the entire excess. I might explain that 1964 was the first year that the policy of a Christmas stamp was introduced, I think there always will be some Christmas stamps left over. We have started a considerable reduction for 1965. I can give you the results of the 1965 Christmas stamps; we reduced the quantities printed from 258 million to 216 million on the three cents denomination and 102 million to 97 million on the five cent denomination. We increased the quantities in the cello paqs, that is the 50 stamps in a cellophane package, from a million to about a million and one half. Now, our returns have been better in 1965 than they were on this figure that the Auditor General has quoted.

With respect to the cello paqs, in spite of the 50 per cent increase in the number printed, we decreased from 12.1 per cent to 10.8 per cent, and on the three cent sheets we decreased from 10.5 per cent to 6.2 per cent return; on the five cent denomination we decreased from 8.8 per cent to 5.3 per cent.

Now, in future we are going to take some other steps which we think will eliminate the loss entirely on the five cent denomination. We are going to try selling the five cent denomination on right through January. From observations, we believe that the public will take the five cent denomination right on through January. However, we believe the public will not take the three cent denomination in January because the average person does not buy a three cent stamp except at Christmas. The big advertisers who use three cent stamps do not like to use them, they prefer the small stamps. So what we are going to do is take any excess of three cent stamps that we might have, after reducing the quantity, and hold them until next year. Then if any post office runs out we will send them the old three cent stamps and see if they can sell them.

The CHAIRMAN: Mr. MacDonald, it would appear that this loss of \$16,000 to the taxpayers of Canada could have been avoided in two ways. First, closer estimates of the number purchased and, secondly, why put "1964" on the stamps; why not just put "Christmas stamp" so you could use the stamp next year in 1965? If you did not sell them all in 1965, you could sell them in 1966. Now, what was the thinking in the department to make these two errors?

Mr. J. A. MACDONALD: Well, as I say, this was the first time we ever put out a Christmas stamp and we just made a mistake by putting a date on it. I doubt if you really can think of holding over a Christmas stamp from one year to the next and offering it at the beginning of the year. You have publicity on a new denomination, and I think there would be a great deal of unfavourable public reaction to presenting them with an old Christmas stamp when all the posters had advertised a new one.

The CHAIRMAN: I do not know what the Committee thinks, but I do not believe the people would worry too much about whether it was the Christmas before or the Christmas after, except the stamp collectors.

Mr. BIGG: I might say that I think this is a very good revenue branch. It is just a question of estimating it a little closer and then perhaps letting it be known to the people, who buy this particular type of thing that they are on sale for a limited time and that they will be destroyed if they are not picked up; then you will be sure of clearing your stock.

Mr. WINCH: Mr. Chairman, this is interesting, at least to me it is. I buy a lot of stamps; I have a normal life; I have stood in line, and I have yet to hear somebody ask for a particular stamp. They want 100 stamps, so many five's, so many three's and so many two's. You know, I have never yet heard anybody ask for a Christmas stamp.

Mr. BIGG: Surely you can see that the philatelic branch has made nearly a million dollars.

Mr. WINCH: Oh, that is the philatelic branch. I am talking about a person going to the post office to buy stamps.

Mr. BIGG: No; but they go from the post office branch into the philatelic section as soon as they are withdrawn from an album.

The CHAIRMAN: It has cost \$16,000 to learn a lesson and that is a lot of money. It is the responsibility of this Committee on Public Accounts to look into this sort of thing. I think the first time the department did it, they should have been on the careful side and had a way less than over. The mistake of putting 1964 on the Christmas stamps was unfortunate.

Mr. DAZE: In 1964 the mistake, if you can call it a mistake, was unfortunate. I think Mr. MacDonald will confirm that the first year we were afraid we would run out before the public were satisfied. It was a hard thing to estimate.

The CHAIRMAN: Whose responsibility is it to estimate the number of stamps.

Mr. J. A. MACDONALD: We do it in the philatelic section of the accounting branch, we estimate the quantities to order and recommend it to the deputy.

Mr. THOMAS (*Middlesex West*): I assume you make a profit on these new issues of stamps, they have a philatelic value. Now, what would be the estimated profit on any new issues?

Mr. J. A. MACDONALD: We sold \$139,000 worth in the philatelic section with respect to this one, and then there are a few who buy them at post office wickets throughout the country for philatelic purposes. The total printing costs on any special stamp are always exceeded by the amount we sell in the philatelic section, so we always make a profit on a special issue.

Mr. THOMAS (*Middlesex West*): And in this case you made a profit?

Mr. J. A. MACDONALD: Well, we sold \$139,000 worth in the philatelic section and the waste sheet was \$16,000.

Mr. THOMAS (*Middlesex West*): Could you say that a profit has been made on this particular issue of stamps?

Mr. J. A. MACDONALD: Oh, definitely.

Mr. THOMAS (*Middlesex West*): Then how does the Auditor General arrive at a loss of \$16,000 if a profit was made?

Mr. HENDERSON: It represents the value on cost of what they paid for the stamps which were destroyed. If they had kept them it would not have occurred.

Mr. THOMAS (*Middlesex West*): That is the cost of the destroyed stamps?

Mr. HENDERSON: That is right.

Mr. DAZE: We might have been able to sell them, but this is quite correct.

Mr. BIGG: There was actually an enormous profit on the whole transaction though because the sale value of these stamps far exceeded the cost of the printing?

Mr. J. A. MACDONALD: I am inclined to agree with the Auditor General though—I will be the devil's advocate here—we probably still could have sold \$139,000 worth and not lost \$16,000 on excess quantity.

The CHAIRMAN: Well, in this same paragraph there is another sentence which I think we should pay attention to namely:

—stamps having a face value of \$5,272,000 and an estimated cost of \$64,000 were destroyed or held for destruction at the year-end because they were spoiled in handling, unsaleable or returned from postmasters in lots too small for economical re-issue.

I think we should have that explained.

Mr. J. A. MACDONALD: Well, sir, when a post office is closed out, and during the year there is quite a number of post offices closed, the stamps in the wicket are broken up into parts of sheets and parts of sections. We find it is more economical to send them into the postage stamp division in Ottawa and destroy them than it is to try to audit them, repackage them and send them out to a post office.

The ordinary small size stamp costs us around 21 cents or 22 cents a thousand to print. So if you start doing much auditing of them at today's labour costs you are losing money. Therefore, we find it more profitable to destroy these small quantities.

Our postage bill, a year, would run around a million dollars, and if this is the printing cost, then we had to destroy excess quantities in small offices of \$64,000.

The CHAIRMAN: Mr. MacDonald, you would have to have some sort of a book entry. Those stamps were charged out at their face value to the post office.

Mr. J. A. MACDONALD: He returns them with his cash account at face value and we credit him for the face value of the stamps. They are treated by a postmaster as money.

The CHAIRMAN: Well, how do you account for those spoiled in handling and unsaleable? What happens in this category, because it all adds up to \$64,000.

Mr. MACDONALD: Well, out of our 11,000 post offices, as I have said, there is quite a number closed each year and some stamps always get damaged. If somebody goes in to audit a post office and they see stamps that are soiled, they

instruct the postmaster to send them in for destruction. In continuous handling of a few sheets of stamps at a wicket, they get soiled and damaged. We do not like to offer the public stamps that are soiled.

Mr. BIGG: They are unsanitary. They get dirty so people will not lick them; they will not buy them.

The CHAIRMAN: Well, is this \$64,000 loss the actual cost of printing those stamps, or is it the face value?

Mr. J. A. MACDONALD: It is the cost of printing.

The CHAIRMAN: The \$64,000 is the cost of printing.

Mr. J. A. MACDONALD: Yes.

Mr. BIGG: But there is \$110 million worth of stamps involved.

Mr. J. A. MACDONALD: I know, but wait a minute. The printing cost was one million dollars a year for our postage bill, spoiled in handling, unsaleable, et cetera. Is the committee satisfied with that?

Mr. THOMAS (*Middlesex West*): It sounds a bit high.

Mr. BIGG: How many post offices do we have?

Mr. DAZE: We have 11,200 post offices—

Mr. J. A. MACDONALD: —many in little stores and 9,000 of all sizes—

Mr. BIGG: That is a loss of a dollar and a half a year in all the handling of stamps and returns.

Mr. J. A. MACDONALD: Five dollars for each post office.

Mr. BIGG: Oh, I am sorry, five dollars per post office.

Mr. J. A. MACDONALD: And this includes stores and sub-post offices.

Mr. DAZE: And that includes fires and water damage.

Mr. J. A. MACDONALD: Water damage, fires and anything like that.

The CHAIRMAN: Well, it would be a good advertisement for meter machines then.

Mr. J. A. MACDONALD: Yes; we do not lose on those.

The CHAIRMAN: All right. Is that all?

Mr. HENDERSON: Paragraph 109 deals with the "Write-off of obsolete stores".

109. *Write-off of obsolete stores.* Section 60(2) of the Financial Administration Act provides as follows:

Where a board of survey constituted under subsection (1) recommends the deletion from inventory of any obsolete or unserviceable stores or materials or any stores or materials lost or destroyed, the appropriate Minister with the approval of the Treasury Board, may direct the deletion of all or any part of such stores or materials from the inventory, but the value of stores or materials so deleted shall not be credited to a revolving fund except with the authority of Parliament.

The Treasury Board, under the provisions of this section, approved the deletion of stores which had cost \$19,667 from the inventory of the

Post Office Department and approved the inclusion of an item in the supplementary estimates in order to reimburse the Post Office Revolving Fund for the cost of these stores items which had become obsolete in inventory.

The amount appeared in Supplementary Estimates (D), Vote 1d, 1964-65, under "Postal Services, \$328,700", as an allotment for "Mail Bags and Letter Carrier Satchels, \$19,700", rather than as a separate supplementary item in such a manner as to indicate that the amount was to recoup the Post Office Revolving Fund for losses due to obsolescence. The wording of this estimates item does not convey to Parliament its real purpose.

Now, as members of the Committee know, we pay particular attention to the description attached to estimates. It is most important, in my view, when estimates are laid before the House, that they convey their meaning to the members who are asked to pass upon the figures. The purpose of this note is to show how the wording of the item in question in Supplementary Estimates (D) of 1964-65 did not convey to Parliament its real purpose.

However, I can tell you that on April 2, 1965 the Minister handling the Supplementary Estimates for Treasury Board did explain the nature of this proposed expenditure in the House. I believe one of the members put the question and he furnished a complete explanation. However, it only came up because of the question that was asked at that time. This occurred subsequently to this note, Mr. Chairman, but I do not think you will want to take too much time discussing it; it is something that we keep careful track of.

The CHAIRMAN: The department might explain very briefly the item dealing with the deletion of stores at a cost of \$19,667.

Mr. J. A. MACDONALD: This was entirely an excess stock of what we call "grommet" locks used on parcel post bags. We had decided not to put locks on parcel post bags. We had an excess supply and we thought it would be in excess of what we would use in the next few years. Incidentally, we have not actually destroyed them. We kept them because we are reconverting our grommet bags to letter bags with a special coloured string in them, so we may never actually destroy them.

The CHAIRMAN: They would go to Crown Assets if you disposed of them.

Mr. J. A. MACDONALD: If we did.

Mr. DAZE: But we still have them.

● (5.45 p.m.)

Mr. JAY: In that connection sir, I might point out that they would be reduced to scrap because of the security feature of the lock. They would not be handed over to Crown Assets as an operating lock. The mechanism would be destroyed first.

Mr. BIGG: Are they not just about useless for anything else?

Mr. JAY: Yes, I think so.

Mr. HENDERSON: Paragraph 110 deals with charges for Post Office lock boxes and bag service:

110. *Charges for Post Office lock boxes and bag service.* Post Office patrons who receive incoming mail in lock boxes are charged an annual

rental varying from \$2 to \$18 depending on the size of the box and on whether the patron lives outside or inside of the letter carrier area.

Some patrons who have a very large volume of incoming mail do not rent a lock box but are provided by the Post Office with what is known as "bag service" for which they are charged an amount of \$10 or \$18 per annum depending on whether they reside outside or inside of the letter carrier area.

There are other patrons with a heavy volume of incoming mail who rent a lock box (usually but not necessarily one of the largest) although the box cannot handle the mail volume so that bag service has to be provided. In some cases the box remains unused, all the mail being put up in bags for the patron. In such cases the lock box is generally retained because the patron wishes to have a post office box number as an address, but although he has the use of the box and is also receiving bag service, he pays only the annual lock box rental, no charge being made for the bag service.

We have pointed out to the Department that the provision of a lock box as well as bag service for the one annual fee not only provides the patron with a free service not available to other patrons, but may be tying up lock boxes required for other patrons.

The Department has advised us that the situation has been under study but a solution has not yet been found because of "the complexity of the problem and possible effect any change would have on our box assemblies and post offices".

This, as you see, is a situation which the post office has under study. I do not know whether Mr. Daze and his associates want to add anything further to this, but we raise the question about no charge being made in these circumstances.

MR. DAZE: I must admit, Mr. Chairman, that we have not come to a solution. It is quite a complicated thing. Mr. Gaunt can give details. Let us say a firm has a box and it becomes too small; we have to put this mail into general delivery and put a card in the box saying, "Call at general delivery to get your superfluous mail." So, eventually we can use a bag and it is much simpler. If we did close this box, which the firm may have had for 10, 20 or 30 years, they would raise Cain. We could change the number of that particular box, give it another number and reclaim the box number for the bag service. However, this would confuse our screen line; you would have to find 518 among the 1,500 or so. Is there anything you want to add, Mr. Gaunt?

MR. GAUNT: That covers it fairly well, Mr. Daze. The solution sounds very simple, that we simply remove the box.

MR. BIGG: Would this be for something like these radio addresses where they have a ton of mail coming in?

MR. DAZE: Well, these would have a bag service, the large newspapers, the railways, banks and many big firms too.

MR. GAUNT: But in most of these cases they rent these as separate bag services.

Mr. WINCH: Mr. Chairman, I have a question that perhaps is on a different aspect. There may be an explanation and, if so, I know we will get it.

Looking at this statement we received, I do not know how it strikes the other members, but to me there is something a little bit unethical to have a disbursement cost of \$59,531 and a receipt for revenue of \$1,798,092 on lock box rentals. In my opinion a surplus return of \$1,738,561 on a \$59,000 cost is unethical and immoral unless there is some explanation which I do not get from the way it appears on the statement.

Mr. J. A. MACDONALD: In the cost that is shown there, it is only the cost of some bookkeeping in the department. There is no charge there for the sorting of the mail to the box.

Mr. WINCH: Oh, but that is dumped onto your postage, is it not?

Mr. J. A. MACDONALD: Yes.

Mr. WINCH: Otherwise you have to get your postal delivery man to take it.

Mr. J. A. MACDONALD: It is a delivery cost. It is an alternative to letter carrier delivery.

Mr. WINCH: No, no. If it goes out on letter carrier delivery, that 5 cent stamp on first-class mail will be sorted and then it will be packed around for the mile that he has to walk for delivery. Whereas here, it is sorted and goes right into a box. I do not see how you can bring that in as an additional cost.

Mr. J. A. MACDONALD: There is also another charge that should be made here, which is the interdepartmental charge by public works for the cost of the boxes. Public works pay for these boxes and that is not charged here.

The CHAIRMAN: Mr. MacDonald, it would seem that your department should make a decision with regard to this matter without delay. I think this has been going on for years, but you have not come to a solution. I do not think there is a city in Canada where the post office is not short of boxes. I had experience in this in my own community and when I looked into it, I found this very thing happening. A fellow had a box number, we will say 100, he never used the box; he left it so he would have a number, and yet the post office put all the mail in a bag. That box 100 remained empty and could have been used by a citizen of my community.

Now, it would seem to me that a fellow could still keep the same number, box 100, but there should be a charge for the mail bag that all his mail is put into when he comes to collect it. There must be some way that that box could become available and rented to someone else because there are a lot of firms waiting for boxes and they are told there are none available.

Mr. J. A. MACDONALD: This is part of the problem that Mr. Gaunt and Mr. Daze are trying to figure out.

Mr. BIGG: I feel one of the reasons why they do charge is because it is a privilege to have a box. I can get my mail at any hour of the day or night without postal service. The competition for boxes, as you said, is such that there is a limit to the number of boxes you can put into a normal post office. So we compete, in a sense, for the privilege of having that lock box, because you do not have to wait for your mail and so forth. It is just another justifiable revenue item for the post office; they are selling a commodity.

Mr. DAZE: Those who have a bag service can only get their mail when the post office is open, when there is someone on duty.

Mr. WINCH: Is it my understanding, from what you have just said, that the \$1,798,000 is a true report on receipts, but the cost of \$59,531 is not a true statement?

Mr. J. A. MACDONALD: That is correct.

Mr. WINCH: Then do I take it that in the future we will have a true statement before us with respect to the costs of various departments, including a post office box.

Mr. J. A. MACDONALD: Yes. Under this new system, which we say will be available in July, the true full costs, including the interdepartmental charges, will be there. However, we will not have covered this question that Mr. Bigg brought up about the demand for the service and the actual sortation costs to this service; that is, as a service it will not be costed. Now, your argument is a good one because if we did not do it that way we would have to deliver it by letter carrier, but, on the other hand, it is a service.

Mr. WINCH: Do you not agree that it just looks wrong when you say that you make \$1,738,000 on a costing figure of \$59,000?

Mr. DAZE: I do not have the information here, but there is something wrong there. This may be the cost of boxes installed this year, taking into account millions of them.

Mr. WINCH: No, this is not the bookkeeping.

Mr. MUIR (*Lisgar*): Mr. Chairman, I think it would be reasonable to charge a man for receiving a supplementary service, which is the case when he has a bag. He has tied up the box, he is getting the bag as well which is cluttering up the post office—and most of them do not have too much room to start with—and I do not think there is anything unreasonable about charging him for that bag.

The CHAIRMAN: Let him keep that box, number 100, let him re-letter that box 100A and rent it to someone else.

Mr. DAZE: Or use some other number.

Mr. BIGG: Well, if it is first-class mail, you are making a tidy profit on it.

Mr. GAUNT: I might just mention that this is one of the complicated problems, Mr. Chairman. It sounds very easy to extract that box and put another number on it. However, the unfortunate thing is that our system of numbering boxes across the country is such that any clerk, when you say box 135, he can put his finger on it with his eyes closed. The moment we start extracting numbers from this, then our sorting costs are going to rise because this will destroy the sorting pattern.

Mr. MUIR (*Lisgar*): I do not think there is anything wrong with him paying for the box. If he wants to keep it empty that is his own business, but if he has to have a bag to put his mail in, he should pay for it and then everyone is happy.

Mr. DAZE: But he could say, "All right, I will keep my box, put the mail in there and when there is too much put it in general delivery and I will pick it up." We would have to comply because that is our regulation.

The CHAIRMAN: Well, we will leave the problem with you to settle. I entered into the discussion, but I am a greenhorn.

We will now deal with section 111, gentlemen:

111. *Post Office Savings Bank*. At March 31, 1965 the balance on deposit in approximately 300,000 accounts in the Post Office Savings Bank was \$23,255,000, including approximately 200,000 accounts with an aggregate balance of \$2,801,000 classified as dormant and unclaimed. In many of these latter accounts the balance of principal has remained unchanged for many years.

Section 52 (4) of the Post Office Act, R.S., c. 212, provides that:

Interest on deposits in the Post Office Savings Bank shall be added to and become part of the principal as of the 31st day of March in each year.

However, in order to keep costs down, interest earned by these dormant and unclaimed accounts, which is a charge to annual expenditure, is not being credited to the individual accounts but is calculated on the balances of the control accounts only and credited to a relatively few interest accounts. Interest accumulated in this manner to March 31, 1965 totalled almost \$1 million and is increasing at the rate of \$69,000 annually.

The Department is now giving consideration to the manner in which the Post Office Act could be amended in order that it might deal with unclaimed balances in accounts of the Post Office Savings Bank in a manner similar to that in which unclaimed balances in chartered banks are handled.

Mr. HENDERSON: The last item we will be discussing here deals with the post office savings bank. You will note that the balance on deposit in approximately 300,000 accounts in the post office savings bank was \$23,255,000, including 200,000 accounts with an aggregate balance of \$2,801,000 which were classified as dormant and unclaimed. During the year we brought this situation to the attention of the post office which states it is giving consideration to the manner in which the Post Office Act might be amended in order to deal with unclaimed balances in accounts of the savings bank, and do it in a manner similar to that in which unclaimed balances in chartered banks are handled. This seemed to us to offer a reasonable solution to the problem, but perhaps our witnesses present may have something to add to this. I do not know the present status today.

Mr. MUIR (*Lisgar*): Before you answer that, is this an employees' bank?

Mr. HENDERSON: No, it is public.

Mr. BIGG: I am afraid there is not a very good way of simplifying this because you do not have to do very much to identify yourself to open this account. People do it and then forget about it; they do not even have to use their own name.

Mr. HENDERSON: I think under the proposal, this would be published in the *Canada Gazette*.

Mr. DAZE: Mr. MacDonald can bring you up to date on this.

Mr. J. A. MACDONALD: We have been investigating this with the Department of Finance and the Department of Justice. I think the nub of the question is to save paying interest on this dormant amount of money which, as Mr.

Henderson has pointed out, runs to about \$69,000 a year and is increasing. To do that, we have been told by the Department of Justice that it is not necessary to amend the Post Office Act. You see, the Post Office Act says that we shall not pay more than a certain rate of interest, but they tell us that under certain conditions and by regulation this could be set at zero interest. So we could do this then by amending our regulations. If we do this, it is just a matter of working out some details about what to do with these accounts, do we transfer them over to the Comptroller of the Treasury, or preferably to the Bank of Canada and then they can look after them or we look after them. Then, to follow the procedure of the chartered banks, after 30 years they do not pay interest on dormant and unclaimed accounts. That is where this zero interest would come in. This is a good suggestion which I think we have well in hand, and I believe we will have it straightened out within a few months.

Mr. WINCH: I have one question on that. This may be just an accounting practice which I do not understand and I would like to get it. According to paragraph 111, there was on this date \$23,255,000 on deposit. This is a public deposit in the postal savings for which they get interest, but the post office savings receives a greater interest on its investment than what they pay out. Therefore, I cannot quite understand what is meant by this statement where it shows disbursements of \$318,753 and a deficit of \$318,753.

Mr. HENDERSON: That is a very good question.

Mr. WINCH: Can I have an explanation with regard to a savings bank deposit of over \$23 million, interest paid, but you loan it at greater interest; you must be getting money coming in, and yet you only show a disbursement and therefore you show a deficit. I cannot figure out how, in the name of God, you arrived at a deficit on this. It must be bookkeeping, I really do not know. What is the explanation for this?

Mr. HENDERSON: That is a good question and I think I know what the answer is, but I would like to ask Mr. MacDonald to answer it.

Mr. J. A. MACDONALD: Thank you, Mr. Winch, you are a friend of mine. This was part of the government's present accounting system whereby like activities are not associated.

Mr. WINCH: Like activities are not associated?

Mr. J. A. MACDONALD: That is right. All parts of an activity are not associated in the government's accounting system.

Mr. BIGG: Money is not always an asset then?

Mr. J. A. MACDONALD: There should be a credit for interest on this \$23 million at, I would say, approximately the savings bond rate.

Mr. WINCH: Should it not appear on this statement?

Mr. J. A. MACDONALD: It should appear on this statement. I have been beating my head against the wall with regard to this myself for a long time. If that were put in there, you would have 5 per cent, 5½ per cent or six per cent, whatever the going rate is, on this \$23 million as a credit.

Mr. WINCH: You actually have that revenue?

Mr. J. A. MACDONALD: Well, if the government did not have this money on deposit, they would be borrowing that much more money at whatever interest rate it is, 5½ per cent.

Mr. BIGG: No, theoretically you have not because this belongs to an unknown group of persons; you really do not have that money at all.

Mr. J. A. MACDONALD: The government has paid them $2\frac{1}{2}$ per cent, and I do not think even that payment of $2\frac{1}{2}$ per cent is in this cost either, incidentally.

Mr. BIGG: That is a profit to the whole operation.

Mr. J. A. MACDONALD: That $2\frac{1}{2}$ per cent should be charged here, but the 5 per cent should be credited, so you have a profit of $2\frac{1}{2}$ or 3 per cent on the \$23 million.

Mr. WINCH: Just how is it credited? It is not here. Why then do you say, as you do here, that you have a deficit of \$318,000?

Mr. J. A. MACDONALD: Because these are just post office accounts and the Department of Finance pays that interest, but they do not give us credit for the money they save by not borrowing from the public for this equivalent \$23 million. If this were a private business, or we were in the banking business—

Mr. HENDERSON: Or a crown corporation.

Mr. J. A. MACDONALD: —we would invest this money at 5 or 6 per cent, just like any private bank does, and we would make money. This is the way banks make money, namely on float, and this is what we would make money on, the float on this \$23 million.

Mr. WINCH: Mr. Chairman, although the hour is late, I do think the committee should bear in mind a recommendation that we want a true statement, a complete statement and not what I term to be an incomplete and misleading statement on the postal savings branch.

Mr. HENDERSON: They can use every revenue dollar they can get, that is for sure.

Mr. WINCH: But we should have a complete statement as to the operation of the postal savings.

Mr. HENDERSON: They are entitled to credit for this just as much as for the franking.

Mr. THOMAS (*Middlesex West*): I have a question, Mr. Chairman. I wonder if we could have these gentlemen explain very briefly the workings of this post office savings bank. Who makes the deposits, what are done with the deposits and how are they paid out?

Mr. J. A. MACDONALD: You can go into any one of about 1,500 accounting post offices across Canada, and this includes all of our larger post offices, and open a savings bank account any day you like. They give you a little pass book, you get a receipt for your deposit and then you can deposit any amount you like up to \$10,000 in total on balance in the account, and you can withdraw up to \$100 a day at any of these 1,500 post offices anywhere in Canada. It is a very portable and a very convenient sort of thing, but it just has not been considered policy to advertise it or publicize it.

Mr. THOMAS (*Middlesex West*): The rate of interest is going down all the time.

Mr. J. A. MACDONALD: Well, it has been fixed at $2\frac{1}{2}$ per cent. I believe the interest rate is limited to 4 or $4\frac{1}{2}$ per cent in the act, but it is set now at $2\frac{1}{2}$ per cent.

Mr. THOMAS (*Middlesex West*): And the individual can draw out up to \$100 a day.

Mr. J. A. MACDONALD: In any of these 1,500 offices, yes.

Mr. THOMAS (*Middlesex West*): And there are about 200,000 of these accounts that are dormant and unclaimed. So that means there are about 100,000 active claims now in the Post Office Department?

Mr. J. A. MACDONALD: Yes.

The CHAIRMAN: Would this not be an indication, Mr. Thomas, that perhaps consideration should be given by the Post Office Department to closing out this operation because of lack of use, or are there some parts of Canada where they would really miss this service? I suppose the post office would like to get rid of this service.

Mr. THOMAS (*Middlesex West*): The only places where it would really be of service would be in the very far distant areas where all the post offices are and there are no banks. It is only the large post offices that give the service anyway. It looks as if the service is unnecessary.

Mr. WINCH: I think the government would love getting money at $2\frac{1}{2}$ per cent. When you put it in a savings bank you get 3 and a quarter per cent.

The CHAIRMAN: Yes, the post office would have no objections if we recommended that this service be discontinued.

Mr. THOMAS (*Middlesex West*): These 200,000 dormant accounts only have \$2 million in them, so that amounts to about \$14 each on an average.

Mr. BIGG: Might I ask how much money is in this thing that is claimed? How much business is the post office doing apart from this lost account?

Mr. J. A. MACDONALD: Do you mean how much are the receipts and deposits each year? They run around \$7 or \$8 million on deposits a year, and the withdrawals are slightly more. It is going down, and this is down to \$21 million now.

Mr. MUIR (*Lisgar*): I think, Mr. Chairman, there must be several hundreds of towns and villages where there are no banks and this could be a service.

Mr. J. A. MACDONALD: There are approximately 4,000 accounting post offices in Canada where there is no branch of a chartered bank.

Mr. BIGG: Therefore I would not hurry to withdraw this service to the public; it is very necessary in rural areas.

The CHAIRMAN: Well, gentlemen, that concludes the post office section. I would like to thank the officials of the department for appearing before the committee.

Tomorrow we will have the officials from the Public Works Department. There will be 17 witnesses here so please convey this to all members of the committee, and have them here in good number tomorrow morning at 11 o'clock. Thank you.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 10

THURSDAY, MAY 26, 1966

Public Accounts, Volumes I, II and III (1964 and 1965)

Reports of the Auditor General to the House of Commons (1964 and 1965)

WITNESSES

Mr. A. M. Henderson, Auditor General of Canada; Mr. D. A. Smith of the Auditor General's staff; and Mr. L. Lalonde, Deputy Minister, Department of Public Works; Mr. G. B. Williams, Senior Assistant Deputy Minister; Mr. G. T. Jackson, Assistant Deputy Minister; Messrs. L. Boyle and A. Mills of the Department of Public Works.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,	Mr. Gendron,	Mr. Stafford,
Mr. Ballard,	Mr. Leblanc (<i>Laurier</i>),	Mr. Tardif,
Mr. Bigg,	Mr. McLean (<i>Charlotte</i>),	Mr. Thomas (<i>Maison-</i>
Mr. Cameron	Mr. Morison,	<i>neuve-Rosemont</i>),
(<i>High Park</i>),	Mr. Muir (<i>Lisgar</i>),	Mr. Thomas (<i>Middlesex</i>
Mr. Dionne,	Mr. Noble,	<i>West</i>),
Mr. Flemming,	Mr. Racine,	Mr. Tremblay,
Mr. Forbes,	Mr. Schreyer,	Mr. Tucker,
		Mr. Winch—(24).

(Quorum 10)

Edouard Thomas,
Clerk of the Committee.

CORRIGENDUM—(*English version only*)

Issue No. 5—Tuesday, May 10, 1966.

Page 195, lines 25, 30 and 34: page 196, line 6, for Lefebvre read Bigg.

MINUTES OF PROCEEDINGS

THURSDAY, May 26, 1966.
(12)

The Standing Committee on Public Accounts met this day at 11.07 a.m., the Chairman, Mr. A.D. Hales, presiding.

Members present: Messrs. Baldwin, Bigg, Cameron (*High Park*), Flemming, Forbes, Hales, Lefebvre, McLean (*Charlotte*), Muir (*Lisgar*), Noble, Schreyer, Thomas (*Maisonneuve-Rosemont*), Thomas (*Middlesex West*), Tucker, Winch (15).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Messrs. Long, Smith, Dixon and Laroche of the Auditor General's staff; Mr. L. Lalonde, Deputy Minister of Public Works; Messrs. Williams, Jackson, Langford, Richard, Mills, Ings, G. Millar, Stothart, Ryan, Clarke, H. Millar, Boyle, Cameron, Dumsday and Sorokan of the Department of Public Works.

The Chairman obtained concurrence in the schedule of meetings prepared by the Subcommittee on Agenda and Procedure. The schedule will be made available to the members by the Clerk of the Committee.

On a request from Mr. Lefebvre, a corrigendum is to be made in the evidence in issue No. 5 of the Minutes of Proceedings and Evidence of the Standing Committee on Public Accounts.

The Chairman put forth a recommendation from the Subcommittee on Agenda and Procedure that questions to the witnesses be as concise as possible to facilitate the scheduling of future departmental representatives before the Committee.

The Chairman introduced Mr. Lalonde, Deputy Minister of Public Works, who in turn introduced the officials present from his Department.

The Committee questioned both the Auditor General and Public Works representatives on:

(1) Auditor General's Report to the House of Commons for 1964.

Paragraph 80—Defalcations in the Malartic area of Quebec.

Paragraph 81—Cost of plans for administration building for Department of Agriculture.

Paragraph 82—Accounting for advance planning of construction projects.

Appendix 2—Non-productive payments:

Item 13—Additional costs due to construction delay, Hamilton, Ont.

Item 14—Additional costs due to construction delay, Lewisporte, Nfld.

At 12:45 p.m., the questioning of the witnesses continuing, the Chairman adjourned the meeting to 3.30 p.m. this same day.

AFTERNOON SITTING
(13)

The Committee resumed at 3.36 p.m., the Chairman, Mr. A.D. Hales, presiding.

Members present: Messrs. Baldwin, Bigg, Hales, Tardif, Thomas (*Maisonneuve-Rosemont*), Thomas (*Middlesex West*), Winch.

Also present: Mr. Howe (*Wellington-Huron*).

In attendance: Same as at morning sitting, and Mr. Freeze of the Department or Public Works.

Discussion took place on a point of order raised by Mr. Winch. Following a ruling by the Chairman, the Committee turned to the Auditor General's Reports.

Mr. Lalonde provided additional information on two points which had been requested at the morning sitting re defalcations at Malartic and architectural fees for the Agriculture building.

The Committee questioned the witnesses on the following items of Appendix 2 to the Auditor General's Report for 1964:

Item 15—Additional costs due primarily to construction delay, St. John's, Nfld.;

Item 16—Additional costs due to construction delay, Ottawa;

Item 17—Additional costs due to construction delay, Halifax, N.S.;

Item 18—Additional costs due to construction delay, Hamilton, Ont.;

Item 19—Cost of delay in construction of building for the Post Office Department, Ottawa;

Item 20—Costs resulting from construction delays, Income Tax Computer Centre, Ottawa;

Item 21—Costs of delay in construction of extension to heating plant, Montreal, Que.;

Item 22—Cost of temporary suspension of construction contract, St. Nicolas, Que.;

Item 23—Consultants' fees in respect of abandoned work, Frobisher N.W.T.;

Item 24—Consultants' fees in respect of abandoned work, Edmonton Alta.;

Item 25—Consultants' fees in respect of abandoned work, Toronto Ont.;

Item 26—Costs resulting from abandoned expropriations, Hull, Que.

The Chairman adjourned the meeting at 5.30 p.m. to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

THURSDAY MAY 26, 1966.

● (11.00 a.m.)

The CHAIRMAN: Gentlemen, we have a quorum. I am glad to see you all here. We have with us this morning the Department of Public Works, and we shall deal with those paragraphs of the Auditor General's report which have to do with the Department of Public Works. Each of you has been supplied with a list and the reports from which they come and will follow this as outlined. Before proceeding I would like to ask the Committee's willingness to sit this afternoon following Orders of the Day, in view of the fact that we have these witnesses with us. Would you be agreeable to sit, say, at 3.30 this afternoon? Mr. McLean?

Mr. McLEAN (*Charlotte*): I have another Committee this afternoon.

The CHAIRMAN: Is there anybody else on a Committee? Mr. Tardif is not here, but he said he would be able to come this afternoon. Is there agreement?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: We will sit following Orders of the Day this afternoon. You will also be receiving from the secretary, Mr. Thomas, a list of all our meetings from May 31 right to the end of June, outlining the day of the meeting and the subject which will be discussed at that meeting, who the witnesses will be and a list of the paragraphs dealing with those departments. When you receive this I hope you will keep it right on your desk and readily available. We have a heavy program and we are making good progress now and I hope it continues. I appreciate your attendance and your support.

Now, we have Mr. Lucien Lalonde, the Deputy Minister of Public Works. Mr. Lalonde, if you will introduce those members of your staff whom you wish to introduce.

Mr. LUCIEN LALONDE (*Deputy Minister of Public Works*): Mr. Chairman, at the outset I very candidly admit that with the size and volume of the operation of the Department of Public Works there is no one man who knows everything about every project and so I have asked a number of officials of our Department to be available so that they could answer some of the questions you wish to put to them. Each of them has been given specific assignments on the basis of the items reported in the Auditor General's Report. On my left is Mr. Boyle, who was the Financial Adviser to the Department in 1964 and 1965, and Mr. Williams the Senior Assistant Deputy Minister in charge of Operations.

The CHAIRMAN: Would you mind standing, gentlemen, when you are introduced? Thank you.

Mr. LALANDE: Mr. Jackson, Assistant Deputy Minister, Administration; Mr. Miller, Chief Engineer, Harbours and Rivers; Mr. Mills, Acting Chief Architect; Mr. Clarke, Chief Engineer for Development Engineering.

The CHAIRMAN: Thank you, Mr. Lalonde.

Mr. LEFEBVRE: I would like to have a correction made in the Minutes of Proceedings and Evidence No. 5, Tuesday, May 10, 1966. On page 195 there are questions there which are given under my name. They are very good questions. Unfortunately I was not the gentleman who asked the questions so I would like to have them given to the right member of this Committee. These are the third, fourth and fifth questions on page 195 and the first question on page 196.

The CHAIRMAN: Do you know who asked these questions.

Mr. LEFEBVRE: Well, I believe it was Mr. Bigg but I am not sure because his name is in between a couple of mine.

The CHAIRMAN: Thank you.

Now the Auditor General's Report, 1964, page 41, paragraph 80. While you are finding that I would again like to remind the Committee that we must be brief and to the point, those asking questions and those giving the answers to them. If we do not follow a clean, crisp presentation of questions and answers we will never get through this work. I hope I will not have to call anybody to order for taking too much time in this regard; also I would like all Committee members to take an active part and ask as many questions as they would like and not any one person asking all the questions or more questions than another. I will distribute them around and I will try and be as fair as I can in calling on those who have questions to ask. Put your hands up and we will take the names in order and if there are supplementaries I will accept those. Mr. Henderson would you proceed with paragraph 80?

Mr. HENDERSON: Mr. Chairman, the subject matter of paragraph 80, defalcations in the Malartic area of Quebec, was discussed in this committee, as you will recall on the 5th of May. At that time I believe Mr. Muir, Mr. Lefebvre and Mr. Bigg asked a number of questions concerning the present status of recoveries from these defalcations and I suggest that the committee might be furnished with an up to date picture on just where the situation stands at the present item. Mr. Noble and I believe Mr. Flemming suggested that the case looked like organized conspiracy and asked if the man or party who is responsible to the Department had been disciplined. I said these were further questions on which we should have to obtain answers from the Department. We have had this under discussion with the Department and perhaps this is a subject on which the Deputy Minister might have something to say this morning.

Mr. LALONDE: I am not too sure, Mr. Chairman, what are the results of the discussions which Mr. Henderson has had with the officials of the Department. To what question do we address ourselves now?

Mr. HENDERSON: In answer to that, Mr. Chairman, I think the members wish to know the present status of the recoveries. In my report it was stated that some \$13,803 had been collected to date; that it involved 26 individuals and

firms; that you are continuing to press for further collections and it was really an up to date report on how successful you have been, which the members were seeking when they discussed it on the 5th of May.

Mr. WINCH: At the same time we should like any information there is on how the situation could possibly develop to a point where it involves so many individuals and firms.

Mr. LALONDE: Well, Mr. Boyle will answer the first question namely, where the matter stands at the moment.

● (11.15 a.m.)

Mr. L. P. BOYLE (*Financial Adviser*): I will give the current status. This, of course, has been a series of incidents occurring from 1957-58, and the investigations of the R.C.M.P. were completed only in 1964. There were 73 individual projects involved in which three permanent employees, 58 casual employees and 14 contractor-suppliers were charged with various offences relating to fraud. The sum of money identified in the charges was \$77,343. To this date the cases in 51 of the projects have been heard; there are still some outstanding, and the results are as follows: There have been 12 cases dismissed; four were withdrawn; 35 jail sentences were meted out ranging from one day to two years; 31 defendants were given suspended sentences; fines were levied in nine of the cases and reimbursement was ordered in a number of cases. I do not have the actual number.

At this date we have recovered \$700 in fines, and the figure that I have from our accounts on reimbursement is \$17,800. One test case relating to eight separate projects has recently been concluded by the courts and the charges were dismissed; two others of these eight are therefore considered to be concluded because one related to the other. There remain six where the R.C.M.P. consider that they should continue to press charges in spite of the outcome of the test case.

Now, as for the disposition of the persons, apart from the legal action that was taken; as I indicated, there were three permanent members of the departmental staff who had a degree of involvement in the incidents, either directly or in their supervisory capacities responsible for permitting it to happen. Of these, the district engineer involved resigned on the 1st of November, 1960, to take employment elsewhere. The area engineer was suspended and was charged in the courts; three charges were laid against him, two of them were dismissed and the third one was withdrawn in the light of the result of the first two. The assistant territorial engineer whose involvement was considered to be somewhat more minor was disciplined by the department. He was given one week's suspension and put on probation for a period of time sufficient to demonstrate that he was in fact a responsible employee. The remainder of the employees were casuals. They were either foremen or student assistants and they were disposed of among the list of the charges which I have read.

Mr. LEFEBVRE: Mr. Chairman, it says here that in 1960 this was first brought to the attention of the department and this dates back to the early 1950's and we are here in 1966 and this is still not cleared up. What I would like to know is has the Department tightened up on its investigations so this cannot happen in the future, and why has it taken so long to complete this investigation?

Mr. LALONDE: Well, the investigation is complete Mr. Lefebvre. It is the court cases that are not complete, and over that we have absolutely no control. Now this happened on the basis of a day labour arrangement, and I must say that we now use this method rather sparingly. In most cases we go to a specific contract with an outside firm. It still could happen where there is a conspiracy involving supervisory staff as well as the working level.

Mr. LEFEBVRE: Well, would you say some of this could be due to the fact that you do not have sufficient supervisory staff. Could this be one of the reasons that—

Mr. LALONDE: I do not know because at the time this did happen none of us was there, and whether they had enough staff or not I cannot say. The only thing I know is that in any given organization you do not hire supervisors to supervise the supervisors all along the line; otherwise it would be a very costly operation.

Mr. LEFEBVRE: Depending on the amount of money involved you may save money sometimes.

Mr. SCHREYER: Mr. Chairman, at the bottom of page 41 we are told in the report that the Department has no idea as to the total loss. Is this still the case and—well I will put that first.

Mr. LALONDE: That is correct, and this is due simply to the fact that until the cases have been heard in court, and the court has decided that there has been a loss, we have no way of knowing exactly how much money was improperly charged to the government as a result of the fraudulent action of these people. It is only when the court decides that there was a loss and that there is a case, that we can put in our books a specific amount; otherwise we are only guessing and this is why we have had this difficulty with the Auditor General asking us to produce firm figures of the amount of the defalcations before the court cases are all completed. This is impossible.

Mr. SCHREYER: Well, we know now that the Department has recovered \$17,000 plus. The Department does not know yet how much more there may be to recover, or how much it hopes to recover.

Mr. BOYLE: The best evidence we have is that there is an additional \$139 remaining outstanding; that is from one convicted defendant who has not yet paid his full reimbursement. We do not expect any significant further reimbursement.

Mr. FLEMMING: Well, my only comment, Mr. Chairman, was in connection with supervisory staff. As I understand it, the supervisory staff, the three supervisory officials that were referred to by the Deputy Minister, are no longer in the employ of the Department and the question that brought about this comment is the supervision of the supervisors. I mean the supervisors were involved, were they not?

Mr. LALONDE: You could take it all the way back to the Deputy Minister because he has the responsibility for the whole Department but he is not here any more either.

Mr. MUIR(*Lisgar*): I would like to ask if the Deputy Minister thinks that the disciplinary action taken was severe enough to deter anyone from dipping his fingers into something he should not have his hands in in the first place.

Mr. LALONDE: For the people who have been convicted I think it was a good deterrent.

Mr. MUIR (*Lisgar*): But I am talking about the people that you disciplined. I am not talking about the count action. I am talking about the people that you had taken discipline on.

Mr. BOYLE: They certainly will not take any more from the Department of Public Works.

Mr. MUIR (*Lisgar*): No, but what about other people. Was the discipline strong enough toward these people so that other people could be deterred from doing the same thing?

Mr. LALONDE: This is a matter of opinion. The people in the Department who assessed, suspensions or allowed resignations, evidently must have felt it was sufficient.

Mr. MUIR (*Lisgar*): Suspension. I notice you gave a week's suspension to one man.

Mr. LALONDE: Who was not necessarily involved in the conspiracy, as I understand it.

Mr. BOYLE: Yes, perhaps I could comment on that. The arrangement here was that there were actually three continuing permanent departmental people involved. The practice was to hire a foreman for a certain job and hire day labour for that job. Now, instructions were issued, of course, that none of these persons would ever be hired as foremen again on our jobs. Of the three continuing people the key man in it was the person holding the job of territorial engineer, who had the territory under his jurisdiction; he is the man who was charged. He was suspended from the Department immediately and he was charged with three offences: acceptance of a bribe; breach of trust and I do not know what the third one was—I am sorry—just right now. The two charges that were tried in court were dismissed and the Department had no alternative but to bring this man up to date in terms of his outstanding salaries and so on through his suspension period.

Mr. MUIR (*Lisgar*): The third man.

Mr. BOYLE: The key continuing employee, really there was one continuing employee who we thought was intimately involved although the courts did not support the charges that were laid against him; but he was suspended and during the period of his suspension he officially resigned. So he was no longer employed by the Department from the time the charges were laid.

Mr. NOBLE: I think the answer that Mr. Schreyer got pretty well takes care of my question, but we are told here that the loss to the Department was \$77,433 and that you were able to recover \$17,800. Now, that leaves a balance of \$59,633. Does that mean that this is down the drain, this \$59,000?

Mr. BOYLE: Well, sir, it is very difficult to answer that question. I suppose it can be said to be down the drain, in the sense that it will now have to be charged to another account in the government accounts to reimburse. This is the difficulty that we have had from the accounting point of view in identifying the dollar values. The \$77,000 is the sum total of the alleged fraud prosecuted by the R.C.M.P. Now, the type of fraud involved varied greatly, just to give an

example, one of the foreman admitted that he had bought gravel at \$100 and sold it to the Department for \$300. Now, that is a misuse of his responsibility. Whether that is a \$200 loss to the crown or whether we have paid more for gravel than we should have paid is a moot point. From the accounting point of view it is difficult to set up this kind of an account. So I have some difficulty from the financial office in identifying in dollar terms exactly what we have got here. I feel that there will be some objective loss of public money as a result of not being able to recover fully.

Mr. WINCH: Mr. Chairman, I would like to ask what happened to the firms alleged to have taken part in this fraud. Have they received any government contracts or work since and, if so, why?

Mr. BOYLE: I have the firms' names. I am not able readily to identify them as convicted or otherwise. I could take the time to look it up and report it this afternoon.

Mr. WINCH: Could you answer the second part of my question. In view of the allegation that firms were involved in this fraud, have they received any further work or contracts and, if so, why?

Mr. BOYLE: I will have to get the answer to that, too, sir.

Mr. CAMERON (*High Park*): My questions have been pretty well answered but I would like to ask the witness, has this \$77,433 odd been allocated to specific firms, persons or individuals? Do they owe that money to the government?

Mr. BOYLE: No, sir. They were charged with fraud involving that sum total. The sum total can be identified in charges laid by—

Mr. CAMERON (*High Park*): Does the money belong to the Department of Public Works or to the Dominion of Canada?

Mr. BOYLE: I am not able to answer that because, let us assume that the alleged fraud is \$2,400—

Mr. CAMERON (*High Park*): Take the illustration of the man who bought gravel at \$100 and sold it at \$300. He made a profit of \$200 on each—

Mr. BOYLE: That man may well have been charged and the judgment of the court was that he would reimburse us \$100. Now, the second hundred dollars is in a bit of a limbo. The court has judged that he should reimburse us \$100, thereby in a sense determining that our loss was \$100.

Mr. CAMERON (*High Park*): What I am trying to get at is, have you made any distinction between civil liability and criminal liability? It may be more difficult to prove a man criminally liable than it is to prove him civilly liable.

Mr. BOYLE: We have not pursued it civilly, sir.

Mr. CAMERON (*High Park*): Have you handed it to a solicitor to try and collect any of these amounts. Are they considered collectible amounts?

Mr. BOYLE: In the Department the judgment was made that for those who were convicted in court we would permit that judgment to stand and we would not pursue them any further.

Mr. CAMERON (*High Park*): What I am trying to get at is: Have you distinguished between civil liability? A man is civilly liable to repay a certain

amount of money. He may be criminally liable for a breach of trust, or something of that kind. The two are absolutely distinct. I would like to find out what is the amount of the civil liability due to the Department of Public Works?

● (11.30 a.m.)

Mr. BOYLE: That will take a considerable amount of research into the individual—

Mr. CAMERON (*High Park*): Which you can prove by your accountants.

Mr. BOYLE: We might have some difficulty proving it in a court, sir, because the criminal proceedings have identified another sum.

Mr. CAMERON (*High Park*): I am not interested in the difficulty in court. I am asking you if you have broken it down that way?

Mr. BOYLE: We have not.

Mr. CAMERON (*High Park*): Why not?

Mr. BOYLE: Because the judgment was made that, once having been tried under criminal proceedings, justice had been served.

Mr. CAMERON (*High Park*): Whose judgment was that?

Mr. BOYLE: The judgment of the Departmental officials.

Mr. CAMERON (*High Park*): In other words, you have written them off?

Mr. BOYLE: We do intend, in part, to write off these accounts, yes.

The CHAIRMAN: Mr. McLean; then Mr. Bigg and then Mr. Forbes.

Mr. BALDWIN: It seems to me a horrible thought that this is the only one that happened to come to light. How are we going to stop this occurring in a hundred districts?

I would like to make a suggestion—I do not know whether it is sound or not—that where labourers or anybody else are paid from public funds for, presumably, service to Canada, they should be paid with crossed cheques. This may sound a little bit like red tape but let them be deposited to their bank accounts and then they do not go through these third parties who are able to falsify their cheques and get away with \$77,000, or perhaps \$777,000.

If you paid these people with crossed cheques that have to be deposited to their accounts, then we save doubly. We get it back in income tax, for one thing—about 20 per cent of it—and, presumably, more work would be done for the Department of Public Works.

You would get the gravel delivered by somebody. It might be at a reduced price but you would get something delivered, or presumably they would not pay the money down to the fellow who actually did the shovelling.

I cannot understand how this type of fraud can be perpetrated so often on such a broad scale.

Mr. BOYLE: It is the departmental practice to send pay cheques directly by mail to the payee, and this practice was departed from in this set of circumstances. The foreman asked the district office involved to send the pay cheques to him for distribution to his workers.

That was not a practice that the department tolerated and it was one of the ways in which the territorial engineer was, in fact, breaking departmental regulations.

Mr. CAMERON (*High Park*): The cheques which were sent to the payee may have gone through the official you mention, but the cheques themselves were made payable to the payee, were they not?

Mr. BOYLE: They were forged by the foreman who paid the persons less than they were entitled to, with his personal cheque.

Mr. CAMERON (*High Park*): And then gave them so much under them; is that it?

Mr. BOYLE: He gave them less than they were entitled to, yes.

The CHAIRMAN: I would like to ask a supplementary question here. Has the Department and internal audit system, and was your auditor on this particular job?

Mr. BOYLE: We do not have an organized internal audit system, and in this particular case we obviously did not have an auditor who was checking this. We depend here on the Treasury Office, in the first instance, and the Auditor General in the second.

The CHAIRMAN: Have you now an internal audit?

Mr. BOYLE: Not at this moment, but plans are being made to incorporate this into the departmental organization.

Mr. FORBES: Mr. Chairman, is it not generally the practice of the Department of Public Works to require a contractor to put up a performance bond? In this case, would not the bond people be liable for any defalcation such as you report here?

Mr. BOYLE: That would be the case, sir, if the jobs had been carried out by contract, but these were not. These were on a time and material basis. These were day labour people hired as casual employees. There were no contractors involved.

Mr. FORBES: You have a supervisor, or a foreman, and you do not require him to be responsible for any defalcations in connection with the Department?

Mr. BOYLE: We do not take any particular steps to see that he shall personally bond himself, but there is in existence, of course—and this is what has drawn attention to this, in part—there is the public officer's guarantee account which is a blanket bond for all employees and these gentlemen come under that.

Mr. FORBES: Can you recover from that account?

Mr. BOYLE: A good portion of this amount is recoverable from the public officer's guarantee account.

Mr. FORBES: Would any part of this money you refer to here be recovered from that account?

Mr. BOYLE: Yes, quite a part of it. The part that is not related to contractors or suppliers. All that can be attributed to debts due as a result of defalcation of employees can be recovered from the public officer's guarantee account.

Mr. BALDWIN: I wonder, Mr. Chairman, if I could be advised how these defalcations and irregularities were finally caught. Was it a detection from within the department or was it only when the Auditor General made certain surveys that it was discovered?

Mr. BOYLE: The original reference to the Department came from a number of the students who had worked in the summer of 1959, and had been paid a certain amount by their foreman. When they received their income tax slips in the spring of 1960, they found that the income tax officials meant that they should have been paid more than they were paid and they reported this to the Department. That was in a particular case.

The Department put it in the hands of the R.C.M.P. and, in the course of investigating that one case, the R.C.M.P. turned over this whole net of the conspiracy which involved a number of jobs in the area.

Mr. BALDWIN: It demonstrates the virtues of a university education!

Were these irregularities confined, in area, to a limited district, or to one or two municipalities, or could you call this a community enterprise, or were they scattered over a fairly large district?

Mr. BOYLE: They were in an identifiable area.

Mr. BALDWIN: Was it an area limited in size? Was it one or two municipalities?

Mr. BOYLE: There were probably eight or ten small municipalities involved. Many of these jobs were clearing of rivers, for example for dredging purposes. The river would cover three or four municipalities.

Mr. BALDWIN: All the people involved—the contractors and those concerned—lived in that area?

Mr. BOYLE: In an identifiable set of communities, yes.

Mr. BALDWIN: One more question: What about pension rights in respect of those who were normally entitled to them. We have already had a case where, because of some error, the pension rights were recovered and they should not have been. What is the situation here with respect to the permanent officers or employees who were dismissed? What has happened to their pension rights, if anything? You mentioned one engineer.

Mr. BOYLE: Yes; the engineer who was charged—I am not sure I can answer your question fully—but when he was found not guilty, the question arose as to what his rights were, and the matter was referred through the Treasury Board to the Department of Justice. They did establish that he was entitled to whatever rights he had up until the time of his separation.

Mr. BALDWIN: He has since resigned?

Mr. BOYLE: He resigned from the Department during his period of suspension.

Mr. BALDWIN: Thank you.

Mr. SCHREYER: Mr. Chairman, would the Department have considered it feasible to initiate civil suits for recompense against some of the supplying firms, or some of the individuals perhaps? Was this considered? That would be the question.

Mr. BOYLE: I am sorry; all I can say, sir, is that regarding those firms and individuals against whom criminal proceedings were taken, we made the judgment that we would not pursue civilly. I am not able to say this morning whether all the firms involved were, in fact, charged criminally.

Again, I could try to get that information for this afternoon. I just do not have it with me.

Mr. SCHREYER: Mr. Chairman, could I just revise that question a bit. Would it be considered a normal practice, or a feasible practice, to contemplate launching this civil suit?

Mr. BOYLE: It is possible where the evidence is such that we can make a case in the civil court—you cannot use the evidence that you have used in the criminal court for that purpose—and also where there is a better than even chance of collecting the judgment that you might secure from the civil court. I think that in this case, and in most instances, the chances of collecting are very small.

The CHAIRMAN: That completes the questions on this section.

I would think that the Department should have an internal audit in the danger of a cost plus contract and—the other part—that the Department does not know just how much was taken or how much the total loss was. This appears to be a serious point. We might never have found it out if it had not been for the students.

I would think that the Department should have an internal audit in the Department.

These, no doubt, will be some of the recommendations in our report.

81. *Cost of plans for administration building for Department of Agriculture.* In 1955 an architect was engaged by the Department of Public Works to prepare plans and specifications for and to supervise the construction of a headquarters building in Ottawa for the Department of Agriculture. From 1957 to 1960 payments totalling \$190,500 were made to the architect for the design phase of his undertaking, representing three-fifths of the full fee of 5 per cent on the originally agreed cost estimate of \$6,350,000. In 1961 the architect was instructed to carry out certain revisions to the existing building plans to meet new requirements. Because extensive revisions were required—which resulted in a new cost estimate of \$10,408,000—it was agreed that the amount to be paid to him could be fairly assessed only on a time and cost basis. Provisionally it was estimated that this might involve an additional amount of \$250,000. By February 1964, however, the architect had claimed costs of \$428,013 with respect to the 1961 revisions of which he was paid \$262,087 prior to March 31, 1964. In August 1964 the Treasury Board approved payment of the balance bringing to \$618,513 the architect's remuneration for the design work on the building.

Had no revisions of building plans been involved, the design portion of the full fee relating to the actual contract price of \$9,266,500 as at March 31, 1964 would have amounted to only \$278,000. Construction of the building commenced in October 1963 and is scheduled for completion in April 1966.

Mr. HENDERSON: This case was discussed by the Committee on May 12.

Briefly, as you will recall, the architect had been engaged eleven years ago, September, 1955, to prepare plans for a new headquarters building for the

Department of Agriculture, which was later estimated to cost \$6,350,000. His fee was set at the then rate of five per cent and in due course three-fifths of this amount for the design phase was paid to him, in the amount of \$190,500.

Before tenders had been called, it was decided, in October, 1961, to increase the size of the building to meet new requirements which, in turn, increased its estimated cost to rather more than \$10 million. We were informed that it was not feasible to base the fee for these upward revisions on a percentage of cost, and it was therefore agreed by the Department, with the architect, to compute his fee for this extra work on a time and cost basis, and a figure of \$250,000 additional was estimated.

However, by February, 1964, the architect claimed additional costs, as the note indicates of \$428,013 for the revisions which, as you will see in the note, has since been paid to him.

Consequently, he has received \$618,513 for the design phase instead of \$278 thousand which is what it would have cost on the basis of the cost of the building up to March 31, 1964, which, at that date, amounted to \$9,200,000.

This building will not be ready for occupancy, we understand, until next fall. In the meantime, the architect has been paid a total of \$763,270 for this building to date, including both the design phase and, of course, his supervisory work—the design phase being three-fifths and the supervisory work being two-fifths. His total entitlement, when the building is completed, is likely to be to the order of \$810 thousand.

In the meeting on May 12, I believe Mr. Cameron suggested that further discussion on this matter might be withheld until we had the officials with us today, Mr. Chairman.

The CHAIRMAN: Mr. Cameron, would you like to proceed at the moment, or would you like to wait? Mr. Muir has a question.

Mr. CAMERON (*High Park*): I would like the witness to tell us his version of it first.

Mr. LALONDE: It is the Department's contention that the architect who has designed that building has done work for that amount and that the Department has received value for the amount of architectural and engineering work done.

The only way I can explain that, I guess, is to go right back to the beginning of the planning for this building and follow it all the way through to today. This is a fairly substantial story.

The CHAIRMAN: I think, Mr. Lalonde, this will come out in the questions that will be asked.

Mr. HENDERSON: I would like, Mr. Chairman, to interrupt and say that I am not questioning here the fact that the Department may or may not have received any value for this. It is the size of the escalation of the architect's fee in relation to the cost of the building that concerns me. I am quite certain that value was received in this case.

Mr. MUIR: I am just wondering, the five per cent of the building which the architect is entitled to would probably have amounted to something like \$450

thousand had he taken five per cent of the end cost, whereas you have already paid him \$760 thousand and it is going up to \$800 thousand and probably instead of \$810 thousand it could be perhaps closer to \$900 thousand. That is almost giving him ten per cent of the cost of the building and I think that most architects—

● (11.45 a.m.)

Mr. MILLS: Had he merely had to design the building that is going up now he would have received five per cent as his normal fee; but he was asked to design two other buildings and he has to be paid for that. There were two redesigns of that building, because of changes in policy and changes in possible location.

Mr. MUIR: Do you feel that the building design was changed so completely that he should be paid—

Mr. LALONDE: I will ask the acting chief architect to reply to that.

Mr. MILLS: The plans and specifications were completed for a nine storey building and they were shelved. Consequently, when it was decided to proceed, an additional floor was added. The computer centre, which was to have been a separate building entirely, and the departmental library were all incorporated in the one building.

In addition, the then Minister was agreeable to going on the farm providing sun screens were provided on the windows. This involved a complete redraw with I think, in the neighbourhood of 100 drawings, and about 90 of these had to be revised. This is why the cost rose as it did; but, as Mr. Lalonde has pointed out, we have paid for two complete sets of drawings.

Mr. MUIR: I would just like to ask one further question: In the original design of this building I understand there was no provision made for parking. Can you tell me why any architect—and I am blaming the Department for this—would not make some provision for parking in a building of that size?

Mr. MILLS: We made provision for outside parking; but in this case we did make provision for inside parking for a limited number of cars. If my memory serves me right, it is about 35.

Mr. LALONDE: That was another condition for going on the farm; that, instead of having outside parking around the farm, you would have underground parking.

Mr. MUIR (*Lisgar*): I think that should have been brought out in the first place. Thank you, Mr. Chairman.

Mr. FORBES: Is it permissible to ask who the architect was? This might have some bearing on the questions asked. You never know, it might be a relative!

Mr. LALONDE: Mr. Hart Massey was the architect.

Mr. FORBES: Mr. Hart Massey? Is he related to the ex-Governor General?

Mr. LALONDE: He is his son.

The CHAIRMAN: Do you want to pursue your question now, Mr. Forbes?

Mr. FORBES: No, thank you.

The CHAIRMAN: We will return to you later, Mr. Forbes. Mr. Winch and then Mr. Schreyer.

Mr. WINCH: Mr. Chairman, the first part of my question is the exact question which has been asked by Mr. Forbes, therefore I do not need to ask that one relative to the fee to the architect.

The second part of my question is: I would like to know, Mr. Chairman, if I can get it from you, as to whether it is possible for this Committee now to find out just who was responsible and how is it permissible that a decision is made on a type of building, its requirement and its location and it is changed with the result that we have to have a change of location and three different designs, resulting in this fantastic increase in costs. I think this is the real crux of the question to which this Committee should have an answer. There is such a history of lack of planning, inefficiency, maladministration at expensive cost to the taxpayers that there is a crucial principle involved here. I am asking you, Mr. Chairman, where can I direct that question and how can this Committee get an answer?

The CHAIRMAN: Mr. Lalonde is just waiting to answer that.

Mr. LALONDE: I must confess that it is difficult to answer Mr. Winch in the terms that he has used—

Mr. WINCH: How else can I put it in view of the situation?

Mr. LALONDE: Because I do not consider that the policy decisions made are the responsibility of the administrative side. That is why I do not feel that I have the right, or the authority, to answer you when you say, "How can you stop changes in policy or changes in specifications or requirements"?

The only thing I can point out to you is that, independently of the changes that were made, when this thing was planned in the first place the requirements of the Department of Agriculture at that time were about 150 thousand square feet; but the Department of Agriculture has greatly increased since then as everything else has increased in this country and the requirements are now 438 thousand square feet. Therefore, it is a little difficult to compare the building that was originally planned for that kind of space and for those requirements with the building that is being put up now.

Mr. WINCH: Mr. Chairman, I think that the logical question which follows, then—and it is in order, I hope—is that surely in planning and designing a building which is going to cost millions and is going to stand for 40 or 50 years, you do not only look ahead one, two, or three years? Surely when you are spending all these millions on a long term usage building, there is some planning ahead?

Mr. LALONDE: I could not agree with you more, Mr. Winch, that in planning anything we should plan for a number of years ahead. My own feeling is that we should always plan for at least ten years ahead in trying to compute requirements.

Mr. WINCH: But lack of planning is not your responsibility?

Mr. LALONDE: Wait a minute. In planning then years ahead there are two factors which enter into the picture. One is the basis on which you plan for the next ten years, assuming that there is not going to be any change in policy. How

often has it happened in any ten year period that you have not had basic changes in policy?

Mr. WINCH: Do not use that as an argument for not changing governments.

Mr. LALONDE: That is certainly not something on which I can comment. The other factor is that in trying to plan ten years ahead, if you say your requirements now for any department are 200 thousand square feet, and you can see that within a period of ten years this will increase by between 20 and 30 per cent, you evidently must put up more space than you need right at the moment. This costs money. You then run right smack against the other consideration, in any one year, which is: How much money do we put in the budget for this particular year? There is a conflict there, and a real conflict.

Mr. WINCH: Mr. Chairman, I understand the position of the Deputy Minister on this but I still think the matter is of such vital importance and is so absolutely crucial that I hope you, sir, may be able to find a way whereby we can get somebody before us on this matter.

The CHAIRMAN: I think, perhaps, Mr. Lalonde could give us this: this building was originally planned in what year, and where was its location; then the second plan was to move it to the farm, and so on. It was mentioned, the other day there were three or four ministers of agriculture during this period of time. I think the Committee would like to have a little background information there, briefly.

Mr. LALONDE: Mr. Chairman, the planning for this building started in 1954. At that time this was tied somewhat to the Greber Plan and there was a certain amount of long-range planning in so far as the development of the national capital area was concerned.

At that time the Department recommended that the new administration building be built on a suitable site at the farm as part of that Greber Plan.

This was endorsed by Cabinet in March 1955, and Mr. Massey was hired to start preparing the plan. In 1955, the only thing that the department had to work on was a requirement for 150 thousand square feet for agriculture, excluding some of the items that Mr. Mills has mentioned, which were added later. The architect started to prepare preliminary sketches and drawings.

By February, 1957, which was two years later, the estimate was close to \$6 million, based on the detailed plans valued at their proper cost. The original estimate had been based on an estimate of \$15 a foot for 200 thousand square feet of gross space. But when they made the plans the estimate in 1957 was changed to \$5,765,000.

Between February, 1957 and February, 1959, the Department underwent some quite radical changes, I am told, and these included major changes arising from their reorganization, and affecting the requirements. Immediately, the consultant was told to start changing his plans. We made an arrangement with him, owing to his having to pay some of his people, to pay him on account on what would be the eventual cost.

In 1959—and you must remember that the plans that he had been working on were for the Farm—the Minister said he would not go to the Farm. The plans were scrapped.

In 1961, two years later, another Minister agreed to go to the Farm under certain conditions which were outlined by Mr. Mills, and the plans were redrawn. There was an additional factor. The borings—I remember I went through this two years ago with respect to the value of taking borings for either construction of building or wharves—the borings that had been taken in 1954 and 1955 had failed to show a fault in the rock, where the original plan intended to place the building, and we had to move 170 feet. This required a new foundation to go on the new site. This was an additional change. We changed the location in 1962. In January, 1963, the complete plans were discussed with Treasury Board again and we agreed to make some modification to keep the cost down a little.

The plans and specifications were ready in March, 1963, and tenders were called in August, 1963. Our estimate, at that time, was \$10,668,000 and the low tender was \$9,687,000. That is the story of the building.

The CHAIRMAN: May I ask you, Mr. Lalonde: In 1955 were the plans drawn for the down town location, or the Farm?

Mr. LALONDE: The Farm.

The CHAIRMAN: Mr. Schreyer, then Mr. Thomas and then Mr. McLean (*Charlotte*).

Mr. SCHREYER: I just want to offer the comment that it appears obvious that the department cannot be held at fault in this particular case. It is rather a matter of a change of mind at the ministerial or cabinet level. I am wondering if there is any useful purpose in pursuing it much longer.

The CHAIRMAN: We will follow along with further questions. Could we answer yours, Mr. Thomas?

Mr. THOMAS (*Middlesex West*): Most of my questions, Mr. Chairman, have been answered as we have gone along. I understand the building contains about three times the floor space that the original plan called for?

Mr. LALONDE: That is right, Mr. Thomas.

Mr. THOMAS (*Middlesex West*): The first plan was authorized about 1954, which is 12 years ago. A lot can happen in 12 years. We have heard about changes in ministerial desires with regard to this building.

One question, though, has not been answered. I understand that the new building called for some inside parking and I heard the figures of 35 to 38 cars. May I ask: Why this inside parking for so few cars? I imagine there will be hundreds of cars involved there. Why inside parking for a few cars?

Mr. MILLS: At the time we were also making provisions for fallout shelters and this was to be used as a combined fallout shelter and garage. This was about all the space we could provide, having in mind that the column centres were fairly close together, which precluded putting more cars in the area we had set aside for a fallout shelter.

Mr. THOMAS (*Middlesex West*): This was as much designed as a fallout shelter as it was—

Mr. MILLS: Yes, that is right. Originally it was outside the main part of the building.

Mr. THOMAS (*Middlesex West*): The parking would simply be secondary.

Mr. LALONDE: This is another good example, Mr. Thomas, of changes occurring in policy. When we started the planning, the policy of the government was to promote individual shelters. You will remember that?

Mr. THOMAS (*Middlesex West*): I remember that.

Mr. LALONDE: Then it changed to group shelters provided through federal buildings. This is what we are working on now.

Mr. McLEAN (*Charlotte*): In the \$810 thousand going to the architect are there any engineering fees involved?

Mr. MILLS: Yes. The mechanical, electrical and structural.

Mr. McLEAN (*Charlotte*): They are included in the \$810 thousand?

Mr. MILLS: Yes; and there is the fact that we added one storey. He had to redesign about 75 per cent of his design, as all those columns would have to be taken down and all the footings would have to be redone.

Mr. NOBLE: Mr. Chairman, most of my questions have been answered but it occurred to me that I would like to have this information: How much would be a reasonably good salary for an architect for a year?

Mr. LALONDE: I suppose the answer to that is that there is no limit. If he is an outside consultant he can make up to \$200 thousand or \$300 thousand a year.

Mr. NOBLE: Mr. Chairman, I would like to ask this question: Could we not save the Canadian people a lot of money if we had our own competent architects take care of all the government building? Since I have been in Ottawa, we have been continually building and there has been a continual report of large architectural fees coming in here. We must be able to avoid this somehow and employ competent people to do a good job for us, thereby saving the country a lot of money.

Mr. MILLS: As long as you do not pay \$200 thousand a year for a competent architect.

Mr. NOBLE: A reasonable salary should be around \$35 thousand. An architect would be well paid at \$35 thousand, would he not?

Mr. MILLS: If he is making \$200 thousand, he is not going to work for \$35 thousand.

Mr. NOBLE: We have lots of students coming out of universities, who would be glad to take on this work.

An hon. MEMBER: It is a suggestion worth thinking about.

Mr. CAMERON (*High Park*): I would like to find out whether the architect has been overpaid or not. I agree with Mr. Schreyer about the change in policy. You are not responsible for that. Have you gone through all the changes in plan? I can understand that when you are going to build a building in one place and you build it in another, you would not really require any change of plan because it is just a change of location. Then you make changes in the plan. I

would like to know if it is the opinion of the Department of Public Works that the amount paid to the architect was fair and reasonable and not excessive for the services he performed?

Mr. MILLS: Mr. Cameron, it was agreed, when he had to change these plans, that they would be done on a time basis.

Mr. CAMERON (*High Park*): I am not asking what the Auditor General said. I am asking your opinion. Is there any criticism of the amount of money that was paid to the architect?

Mr. MILLS: They were checked and recommended for approval.

Mr. CAMERON (*High Park*): This had nothing at all to do with change in policy. He was paid a proper and reasonable fee for what he did and he was not paid anything more than that?

Mr. MILLS: No. This was in accordance with the fee schedule of the Province of Ontario.

Mr. CAMERON (*High Park*): So that if it cost the Dominion of Canada any more money than it otherwise might have done, it was due to the changes in policy that occurred from time to time?

Mr. MILLS: I would say so.

Mr. WINCH: May I ask a supplementary on that? In view of the question and the answer, am I then jumping to a right or a wrong conclusion when I say that the apparent increase, from five per cent for an architect's fee, which is normal, to that which is going to work out to about nine or ten per cent perhaps, is because of a decision of your Department to employ him on a major project on a time basis? If that is correct, then why do you pay on a time basis that which is far in excess of the normal five per cent which is paid to an architect?

Mr. MILLS: It was not the intention to complete the new building. He was to alter the plans of the one that he had completed in 1958 or 1959. His estimate for changing these plans was \$250 thousand, and on the basis of this we sought approval of Treasury Board to give him the work.

Mr. WINCH: I do not want it in complete detail but I am just wondering what do you consider is the payment for an architect on a time basis?

The CHAIRMAN: What you are saying, Mr. Winch, is that the more the building costs the better the architect likes it, because the more money he makes.

Mr. FLEMMING: Mr. Chairman, my question is not confined entirely to this. It is in general terms. I am expressing an opinion now. An amount of over \$6 million was originally voted, presumably for this building. Then, within a year or so, changes were made by which new cost estimate of \$10,400,000 came forward. As a Committee, I think it is pertinent that we should ask this question before the work is undertaken and, perhaps, even before extensive alterations are approved. Is it not necessary to have the money voted? Does not the additional money have to be voted before your department, Mr. Lalonde, says, "All right, we will go ahead with the amended plan?" It is so

much more than the original, would you not have to go and get that money voted before you proceeded?

Mr. BOYLE: The practice, of course, is to vote an amount of money which is required for the fiscal year. Therefore, there would have been an item in the estimates to cover whatever building was to be proceeded with; and the change in estimated cost would be a matter for executive decision within.

Mr. FLEMMING: Then you do not vote the full amount as the cost of the building. You simply vote what is going to be spent.

Mr. BOYLE: That is right. You simply vote the amount to be spent in the one fiscal year.

Mr. FLEMMING: Actually, the money allotted to you for the year is the amount that you require?

Mr. BOYLE: That is right.

Mr. FLEMMING: Nothing is said in the estimates about the total cost?

Mr. BOYLE: Yes; it is said during the process of the review of the estimates, that this particular building has changed substantially; and that judgment is made by the government in presenting the estimates. They are presenting estimates against the revised building.

Mr. FLEMMING: Then my question is: Before you proceeded with the amended plan, calling for the \$10 million, would you get someone's authority for the cash?

Mr. BOYLE: Yes, there is a group—a Treasury Board Advisory Committee on Accommodation—through whom it was cleared.

Mr. FLEMMING: That is my point.

Mr. BIGG: In estimating these costs for architects do you hire a firm with all the draftsmen and everything as part of a package deal or are these costs for the architect himself for his genius?

Mr. MILLS: No; the overall fee covers all the necessary staff, including the engineering and architectural, required to complete the plans and specifications.

Mr. BIGG: Are there any rules other than five per cent generally such as so much per cubic foot? I would suggest, for example, that for an office building twenty stories high, the architect's fees should not be twenty times as much when each floor is a repetition of the floor below.

Mr. MILLS: We have a basic fee. Where the cost exceeds \$2 million, we reduce the fee by one half of one per cent. Where it exceeds \$5 million, we reduce it by a further one and a half per cent; so that if the basic fee started out at five per cent, for anything over \$5 million you would be getting only four per cent.

The CHAIRMAN: Mr. Thomas, do you have another question.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, I just want to raise this general point which may be more a comment than a question. These inquiries such as we have had, regarding the costs of this agricultural building, make the whole government service look inefficient, fumbling, bumbling and so on. There has been a great deal of criticism in the press in recent months and recent years

on this matter. I would hope that in the course of these inquiries we could also bring out the reasons for these additional costs. I think we have done that this morning.

The costs cover a period of changes authorized over twelve years. It is much better for these mistakes to be found before the building is begun than after the building is begun. We have a building three times the size that it was originally intended to build; we have probably a much better building than it was intended to build; and I find the explanations quite adequate and quite reasonable.

I think the press and the publicity people should be willing to note this and give the government, the Department of Public Works and all others concerned credit for using reasonable judgment. We should not let these disastrous reports and comments be circulated all across the country, making the government and all of their people appear to be a pack of inefficient fools. We have heard these reasons this morning and I think they should be noted by the press.

Mr. BALDWIN: I have one question. It is a supplementary question to Mr. Henderson. I think we had some discussion last year or the year before about the virtues of changing the form of the estimates. I think there was a recommendation by the Glassco Commission which was dealt with, to the effect that not only the government but the committee of supply, when voting money, should be in a position to know, in a situation like this, that there is on record, in the estimates, not only an item voted for the actual cost that year, but that the committee of supply should have information which indicates there have been changes in design, which indicate what the total amount would be, so that there will be these two figures. In other words, the Committee of Supply, before it votes, will know or should know, in any one year that there has been a total amount involving \$10 million instead of \$6 million for a building. I think we had some discussion on this. Does this have any bearing on that sort of a situation?

Mr. HENDERSON: It would have been more informative to the members of parliament had the estimates contained even a few more words giving better information in cases like this.

I think an ounce of prevention is worth a pound of cure. I have maintained right along that I think the estimates could be more informative to you gentlemen. I would hope, following the changes that have been made and the implementation of some of the Glassco suggestions, that that will prove to be the case.

Mr. FORBES: Mr. Chairman, I have just one further comment. I would take it from the information we have obtained this morning that it is quite feasible that this architect may have paid out 70 per cent or 75 per cent of his fees for engineering services, electrical services and advice and this type of thing. Therefore he did not put it all in his pocket.

Mr. SCHREYER: Mr. Chairman, I have a supplementary question in two parts. We were told just a few minutes ago that the architect's fees are reduced by one half of one percent after passing beyond the \$2 million and \$5 million levels. This was not done in this case, I take it? This was not done at all.

Mr. LALONDE: No. It was a straight five per cent.

Mr. SCHREYER: Yes. The second question is: you told us that because of the addition to the building the design of the columns and footings had to be re-drawn. I find this almost incredible, because if it had been adequately designed—I am not suggesting that it should be over-designed—but if it had been adequately designed in the first place the addition of merely one storey would surely not necessitate redrawing it.

● (12.15 p.m.)

Mr. MILLS: It is vital to design in accordance with the National Building Code.

What you have done is that you have added one-tenth of the load to the footings, and you have therefore increased the load on each floor of columns.

In addition to that, the exterior wall was changed, and the loading on the wall columns and the wall beams was at least doubled.

Mr. SCHREYER: Is it not the growing practice to design a building so that it can take an additional storey or two?

Mr. MILLS: No; not buildings of that height. It might be done on a building of two or three floors, but it is not general practice to do this.

The CHAIRMAN: Thank you, Mr. Mills.

I think the Committee are concerned with whether or not the architect was overpaid. I think it seems to boil down to that and I do not know whether you have convinced the Committee of that or not. Personally, I am still not convinced. I think the architect was overpaid.

Is it not a fact that the building was designed with a large amount of glass and was going to be built right out in the open, with no trees around it?—It was to all glass walls—and then one of the new Ministers moved in before it was completed and said, "Here, we cannot have people working in a hothouse with glass all around," and that there had to be shades built on. I would like to have an explanation of this and what this cost the government to change, and why did we accept such a plan in the first place, with all-glass walls?

Mr. MILLS: I could not give you the answer at once in respect to the increased cost of the revised walls, with sunshades.

The CHAIRMAN: First of all, is it a fact that it was first designed with a large percentage of glass?

Mr. EWEN: There would be about twenty-five per cent of the floor space in glass.

The CHAIRMAN: That is large, is it not?

Mr. EWEN: The minimum according to the Department of National Health and Welfare is fifteen, so it is not all that extensive.

The CHAIRMAN: So, it is ten percent over.

Mr. EWEN: Yes.

The CHAIRMAN: And then what did it cost to redraft the plans and to put these sunshades on?

Mr. EWEN: That is something I would have to get for you.

The CHAIRMAN: I think the Committee would like to know. Could you provide that this afternoon?

Mr. WINCH: I think it was a part of your question—I want to make sure—why the Department itself would accept that type of construction in that type of location.

The CHAIRMAN: I am not sure that I understand your question.

Mr. WINCH: I am following this up because I did not think tthat you got an answer on his understanding that it was being built in an area where it was open to the sun and where there was no shade whatsoever; therefore, he knew that the sun might come directly into this building which was twenty-five per cent glass, according to floor space.

Mr. LALONDE: The only answer I can give to this—and you must realizee that I am not an architect nor an expert—is that, as you will recall, the method of constructing office buildings until very recently was to have glass windows all around. This was the modern thinking. Then some architect thought up these sunshades—precast concrete units—that you now see in so very many of the new buildings.

All I can say in explanation is that it is a new concept of architecture, and it was asked for, and it is a good one. It has been used in other places, and it is being used in other buildings that the Department is erecting.

The CHAIRMAN: Are there any more questions?

Mr. MUIR: One final one. Is the building air-conditioned?

The CHAIRMAN: It is like the schools we built a few years ago, when we made them all glass, and then spent millions of dollars to hang drapes and curtains to keep the sun out. I guess that is the same idea.

The CHAIRMAN: Well, No. 82. We will have the answers this afternoon on those other questions.

Mr. HENDERSON: I do not think we need to spend any time on 82, Mr. Chairman. This was discussed on May 12th, and the Committee indicated at that time it shared our view that it was highly desirable that all of the costs on each building project be charged in the right place, not divided between the accounts of two departments.

We now come to the non-productive payments in the 1964 report, page 168, Appendix 2. Altogether in this Appendix there are 35 examples of payments, brought to attention in accordance with the requests made of me by this Committee in past years, which might be regarded as non-productive in character. The cases under this heading were observed in the course of audit of the accounts for the 1963-64 year.

Of these 35 items, involving \$1,247,000, 21 represent construction supervised or handled by the Department of Public Works, and they involve \$642,000, in other words, slightly half of the value of the total items shown in this listing of non-productive items.

The Department of Public Works items begin at No. 13 which is on page 171. We have already discussed two or three of the others.

I do not know to what extent the Members have read these individual paragraphs, Mr. Chairman, but if you wish me to do so I could give you a very short rundown on each one, if you would like to do it that way, or would you care to take a few minutes and have questions on the individual ones?

Mr. WINCH: I would like to start on No. 13.

The CHAIRMAN: With a brief rundown by Mr. Henderson, do you mean, or questions?

Mr. WINCH: I was going to ask about No. 13 because it involves a matter of \$72,000, which is considered non-productive, and that is a rather large amount, I would think, for one item, or to one contractor.

The CHAIRMAN: Well, Mr. Henderson, I think if you gave a brief outline, and then the questions.

Mr. HENDERSON: On each of the paragraphs, Mr. Chairman?

The CHAIRMAN: What would be the wish of the Committee?

Mr. HENDERSON: We could just run through them quickly. Some might attract attention more than others.

No. 13, the one Mr. Winch refers to, was where the Department entered into a contract for the construction of a length of wall, specifying the use of Canadian steel, and the Canadian supplier could not supply the required steel and foreign steel had to be used. Consequently the work was delayed, with resulting additional costs of \$77,000 of which \$72,824 is regarded as being non-productive.

Item 14...

The CHAIRMAN: I guess we will take each one—

Mr. HENDERSON: Do you wish to have each one discussed?

The CHAIRMAN: Yes. Mr. Winch, I think you had a question on No. 13.

Mr. WINCH: Yes. I would just like to know whether this could have been avoided, because when you get a non-productive item in one contract, just on one award, for \$72,000, or almost \$73,000, it seems to be rather heavy to me.

The CHAIRMAN: The question would appear to be that it was the contractor's responsibility, and why was the Crown caught with this amount of money?

Mr. WINCH: I mean, he knew when he tendered that he had to use certain Canadian material, and I would have thought it was his responsibility, when he put in the tender, to know whether or not he was able to get it.

The CHAIRMAN: Mr. Lalonde, would you like to—

Mr. LALONDE: I would like Mr. Williams to answer.

Mr. WILLIAMS: The tender did not specifically require Canadian material.

The standard practice, or the provision in the contract, is that Canadian materials will be used to the extent they are available and economic. In this particular case, the contractor, who was awarded the contract, when he submitted his tender he submitted it on a basis of using a European sheet piling. At the time of tender a second bidder quoted on the use of a portion of the

piling being produced in Canada, that is, Canadian piling, but at a premium cost. The Department realized and knew that this piling was not then produced in Canada, but it was in the process of being rolled by Algoma Steel.

The CHAIRMAN: May I interrupt here, Mr. Williams. I think the Auditor General has stated that the contractor was to use Canadian steel, and you say it was not in the contract. Am I right?

Mr. WILLIAMS: That is correct. It is not a requirement that he use Canadian steel. What we do say in the contract is that he will quote on the use of materials, and if he uses other than Canadian materials he will so specify in his contract, and if Canadian materials are available he has to indicate any premium price for Canadian, if that is the case; because obviously, if Canadian were cheaper, he would use it.

Mr. HENDERSON: The call to tender did not apparently require Canadian steel, but the contractor resolved to use it.

Mr. WILLIAMS: If I could carry on. We had a quotation using foreign steel; there was an alternate quotation using some Canadian steel but at a higher price. The Department went back to the low bidder and asked him to quote on what his price would be using the Canadian steel that would be available.

The price that was quoted was an increase of about seventeen per cent, and the Department recommended that we go ahead with the use of foreign steel. But in accordance with the Government policy we drew to the attention of the Treasury Board that we did have a quote at seventeen per cent increase on the amount of the steel that was available. We had a price for this—an increase in price; it was about \$10,000; but the Department did not recommend it.

Treasury Board, in recognition of the fact that this job was being done in Hamilton, and since they were anxious to develop the production and use of sheet piling in Canada, and the plant producing the sheet piling was in Hamilton where the job was, directed us to enter into a contract to use the Canadian sheet piling. We went back to the contractor who had bid on foreign piling and said, "we will enter into a contract with you; you will use Canadian piling which will be available and on the basis of this we will pay you an increased price." That was the basis of the contract.

Prior to doing this we checked with the suppliers to ensure that they would be able to produce the piling, and we had an assurance from them that they would.

The contract was awarded in June, with the idea that he would complete it before winter works. Later, they found it impossible to produce the sheet piling, and he had to revert to foreign piling. By that time his order for delivery was such that he had to carry out the work during the winter months.

The \$77,000 is the loss in his production because of carrying out the work in winter months, and also in the period in which there was high water.

It was an effort to use Canadian steel which, as it so happened, proved unsatisfactory.

The CHAIRMAN: Just a minute. Mr. Bigg had a question and then Mr. Winch, and then I think Mr. Henderson may have something to say.

Mr. BIGG: I am all for using Canadian steel, providing that two things are done: First of all, we should make sure that, with this sort of preferred treatment, they give the government at least the same deal as they give to private industry on the price; and I think checks should be made in that regard. Secondly, I think we should not be put to this extra expense of having to do it in the winter-time, or perhaps in a winter works program. In other words, I think that the Canadians, if they are going to get this kind of treatment, should make a greater effort to fulfil their contract without an added cost to the Crown. I hope that some steps will be taken to safeguard us in the future.

Mr. MUIR: Just before the Auditor General, Mr. Chairman, was this Canadian steel finally delivered and used for winter construction?

Mr. WILLIAMS: No. They never have been able to produce it.

Mr. MUIR: They never did it.

Mr. WILLIAMS: No.

Mr. CAMERON: I just want to follow that up by asking: It was not the fault of the contractor, then, that the steel was not delivered?

Mr. WILLIAMS: That is right.

Mr. CAMERON: And reasonable steps were taken to assure that it could have been delivered?

Mr. WILLIAMS: That is correct. The company producing it spent a very large amount of money.

Mr. CAMERON: To go one step further, could you tell us why they failed to be able to deliver it.

Mr. WILLIAMS: I do not know all of the problems that they had in trying to produce it. They were just unable, with the prototype that they had set up to do this, to produce the steel to the required specifications.

Mr. CAMERON: Did they accept a firm order to deliver the steel?

Mr. WILLIAMS: Pardon.

Mr. CAMERON: Did they ever accept a firm order to deliver the steel?

Mr. WILLIAMS: The order was placed with the contractor, and any of these companies which are dealing in steel—in a product, in this case—had a rider that they were not bound on.

The CHAIRMAN: No. 14.

Mr. WINCH: Could I ask how long we are going to sit, in view of what is happening this afternoon?

The CHAIRMAN: Mr. Winch, could we sit until ten to one?

Mr. WINCH: Some of us have been on Committee since nine thirty, and I personally would like to shorten it.

The CHAIRMAN: All right; a quarter to one. Would that be agreeable to the Committee? Agreed. No. 14.

Mr. HENDERSON: In the case of No. 14 you have an incidence of subsoil conditions experienced in connection with the construction of a railway wharf

at Lewisporte, Newfoundland, which was much more difficult than had been anticipated as a result of an investigation commissioned by the Department. The contractor again was delayed and had to revise his method of pile-driving, and a claim of \$41,000, as indicated here, in respect of the rental of equipment which remained idle because of the delay, was submitted and paid by the Department.

Mr. WILLIAMS: This was a harbour job at Lewisporte, Newfoundland. We were doing the work for the Department of Transport. It is a rail terminal which connects with the coastal shipping for that part of Newfoundland.

The concept of building this terminal yard and wharf was developed by consultants, and they did a thorough soils investigation and of the site. Soil conditions are commented on so often I would like to make the general comment that it is a very difficult thing to take tests on the surface of the ground and accurately predict all of the inconsistencies which may develop beneath.

In this particular case, there were a large number of borings and soundings, and because it was determined it would be a pile structure, penetration tests—that is, the driving of rods to determine the difficulties of pile driving—were taken, and on the basis of this a design and a tender call was made in which the contractor was provided with the same information we had used in the design; that is, with regard to the difficulties in driving the piling.

As the work progressed it turned out that, because of the very dense nature, the driving was much more difficult than could have been anticipated by the test borings and the driving tests. It was a silt material containing a lot of boulders, and the contractor, notwithstanding his efforts with a lot of different procedures on driving piling, was unable to make progress.

The project was re-examined, and finally the only solution was to use Jetting, which is leading the piling down by means of pump water jets to wash out some of the material and dislodge some of the boulders. This proved satisfactory.

However, due to the fact that he had so much difficulty in developing a solution, the work that he had anticipated doing in about three and a half months took about eight months. As he had his equipment on the site he was inhibited from going ahead with a great deal of the work that he had contemplated. It upset his schedule.

The \$44,000 is a payment to the contractor for his loss of production in that period.

Again it is a case of where the Department accepts the responsibility to provide the best information we can, and if the information we provide is inaccurate based on reasonable assumptions we can make on this unknown factor, then we are responsible for reimbursing him.

The CHAIRMAN: Mr. Tucker, you are from Newfoundland. Perhaps you have a question.

Mr. TUCKER: I would like to know the name of the contractor involved.

Mr. WILLIAMS: Universal Constructors and Engineers Limited, St. John's.

Mr. BIGG: I have just two short questions on this. I would like to know whether this contractor has done this type of work before under similar

conditions. What I am getting at is that I do not like this underbidding on contracts and then coming to the government afterwards. We have had a great many cases of this. If he is an experienced contractor then I think he should have anticipated this difficulty.

The question is: is it the case that your people did the exploration work and they were merely called into drive the piles?

Mr. WILLIAMS: The contractor was an experienced contractor.

Mr. BIGG: He was.

Mr. WILLIAMS: Yes. His actual bid—the low tender—was \$1,120,000; the next bid was \$1,179,000; against the departmental estimate of \$1,197,000. The bids were all close. We examined this, and it was our view, from the information at the time we investigated tenders, that it would have been unreasonable for him to have anticipated as much trouble with the driving.

Mr. BIGG: Nevertheless, your estimate was very realistic compared to the contractor's, and this is why I am a little suspicious sometimes of the lowest bid, because they know that a kind Treasury Board will often reimburse them. I am thinking of one exceptional case, when they deepened the Welland canal, and we got a bill for some \$32 million more than the original contract. Engineers should be able to bid a bid much closer than \$32 million. I think I could do that myself, and I have had no training.

The CHAIRMAN: Mr. Williams, did I understand you to say that the Department did the subsoil investigations.

Mr. WILLIAMS: I am sorry. The subsoil information was provided to the contractor by the Department. However, it was not done by the Department of Public Works. The actual work was done by our consultant on the site.

The CHAIRMAN: The Department of Public Works subsoil testing, or investigating, did not turn out to be too good. Is that the answer?

Mr. WILLIAMS: I have to confess that the conditions turned out to be more difficult than we anticipated; that is correct.

The CHAIRMAN: One further question: Would you not be better advised to contract the subsoil testing work out than attempting to do it yourself?

Mr. WILLIAMS: This was not done by us. We provided the information to the contractor; but the actual subsoil testing was done by the consultant whom we hired.

An hon. MEMBER: Who was the consultant?

Mr. WILLIAMS: The consultants were Goode, Binnie and Preece and they used Geocon Limited for the subsoil work.

Mr. LEFEBVRE: In other words, from what you say, the contractor, with the information that was available to him and the information that had been given to the department, had no way of knowing before that he would run into these conditions, and the department was satisfied that the money that he got extra was due to him? The department was satisfied?

Mr. WILLIAMS: That is correct.

Mr. LEFEBVRE: Would it not appear to be justice that if the subsoil testing company, or the consultants, made a mistake then they are the ones who should have paid the \$41,000, not the crown.

Mr. WILLIAMS: On the question of whether there was a mistake, they gave their opinion, or the best judgment they could form, from the information available. In our opinion they did a reasonable and satisfactory testing and boring procedure in determining the information.

Mr. LEFEBVRE: Why would not you split that three ways—the crown, the contractor and the man who did the subsoil testing—rather than asking the taxpayer to pay the whole shot?

Mr. WILLIAMS: Well, it would be a matter that the contractor has certain legal rights, the department has some, and so has the consultant.

Mr. LEFEBVRE: What were the consultant's fees for this?

Mr. WILLIAMS: They would be on the standard rate of fees. I could not say precisely. I would assume they would be between 5 per cent and 6 per cent on that type of job.

Mr. LEFEBVRE: And what is that?

Mr. WILLIAMS: In the order of \$75,000.

Mr. CAMERON (*High Park*): Do many of these soil tests prove to be as valuable, or invaluable, as this one was?

Mr. WILLIAMS: We do probably 3,000 contracts a year, and of the 3,000 contracts I would say that there are probably 1,200 of them that are subject to, and dependent on, soils information provided; and we are looking at I do not know how many in this group.

Mr. CAMERON (*High Park*): This one did not divulge the information that was required. Are there many in that category, that do not divulge the information which is required?

Mr. WILLIAMS: I am looking at it, and I am saying that it is something less than 5 per cent. That is a judgment.

Mr. LALONDE: Mr. Chairman, if you will recall, we went over this very subject two years ago in the Committee.

This is a question of how much money you spend to make sure that every soils test is an absolute certainty, or do you take a certain amount of calculated risk.

If we felt it was going to cost much more to take the calculated risk, then it would change the picture; but in view of what Mr. Williams has said about the number of tests that we have to conduct in any one year, we feel that it costs less to take the calculated risk.

Mr. WILLIAMS: The other alternative, of course, would be that when we specify this job we would automatically assume that the conditions were going to be the worst they could possibly be, in which case we would have called tenders for jetted piles throughout, and we would have taken into account all the things that could possibly have developed and we would have, in the first instance, paid for an increased cost which we might not have needed on every job we do.

● (12.45 p.m.)

Mr. CAMERON (*High Park*): That is what prompted my question, because it seems to me that a good contractor takes in most eventualities, and I am afraid that sometimes the best contractor loses the contract because the other fellow is only looking at price. I would just like to be sure that we do all we can—and I know it is very difficult—to make sure that we have a competent contractor, not one who is just getting on the payroll and then coming to us with his hat in his hand.

Mr. WILLIAMS: This is something that concerns the Department and we do all we can, of course, to make sure he is competent; and I can assure you that the claims are not lightly paid. We have to justify them every bit of the way. They have to justify them to us, and we will not support something to Treasury Board that we do not justify.

Mr. WINCH: Are we coming back this afternoon, so that we can leave our documents in the same room?

The CHAIRMAN: Yes.

Mr. CAMERON (*High Park*): Just before we leave this question. Did the Department of Public Works and the contractor see eye-to-eye on the sub-soil testing consultants. Were you in agreement? Did the contractor think that the sub-soil investigation and the consultants did a good job? Did you and the contractor agree that there was a good job done?

Mr. WILLIAMS: Yes, we felt it was a reasonable assumption.

Mr. CAMERON (*High Park*): And the contractor too?

Mr. WILLIAMS: Correct; that is why we paid the extra, because we agreed.

The CHAIRMAN: The meeting is adjourned until approximately 3.30.

Thank you, gentlemen.

AFTERNOON SITTING

(Discussion on a point of order raised by Mr. Winch)

● (3.30 p.m.)

The CHAIRMAN: I will be like the Speaker of the House. He finds it difficult at times to count the number of members present. Likewise I find it difficult at this time, may I say we proceed.

First of all, there are some answers that Mr. Lalonde has to give in reply to some questions which the committee asked.

Mr. LALONDE: Thank you, Mr. Chairman. Before I do that, when I introduced the officials of the Department one of them was away on other duties. I would like to ask him to stand now and be identified—Mr. Freeze, the Director of Property and Building Management.

The first question which was asked this morning had to do with the number of outside firms who were investigated in the Malartic area. I now have a report which is based on all the files available, as some of our files dating back to 1959-60 are in the Archives Building. There were 14 firms investigated. All of

them were suppliers. There was no contractor in this group. They were all suppliers. Eight firms were charged and convicted.

Mr. WINCH: And convicted?

Mr. LALONDE: Yes. No, I am sorry. Eight firms were charged and seven were convicted. One firm was a one-man firm. He died before his trial, and the charge was withdrawn.

Seven were convicted and fined and made restitution. Two who had been investigated were found to be not connected with the conspiracy, and therefore no charge was laid. There are five firms whose cases are still before the court for decision by the judge.

One of the two firms against whom no charge was laid supplied material to the Department in 1963-64 for \$108; 1964-65 for \$703; 1965-66 for \$2,642; but you must realize that there was no evidence against this firm, and therefore it was thought that they had the right to be considered as other suppliers.

Of all the others—they received no further business, except one—who had been charged on an item of fraud of \$70; that was the only case, and they were asked to make restitution and they did. This firm has received small orders—not contracts—of, in 1963-64, \$8.95; 1964-65, \$187; and 1965-66, \$32.

Mr. BIGG: This was a matter of convenience for the Department.

Mr. LALONDE: Yes, it is because they are local suppliers.

Mr. WINCH: I appreciate the information, but I would like to ask the Deputy Minister what I think is a very important question: Is it now, or do you think it will be, the policy of your Department to give contracts to, or to agree to supplies being supplied by, firms which have been found guilty of fraudulent action against the federal government.

Mr. LALONDE: No, we have not done so in the case of those six other firms that were convicted, and if any of the five whose cases are now pending are convicted it is not our intention to give them any more business.

Mr. WINCH: If they commit fraud against the government then you will not give them any further business.

Mr. LALONDE: I will not say forever, because that might be too much of an undertaking; but for the time being, no.

Mr. BIGG: I think for the convenience of the Department we should allow a little ministerial discretion.

The CHAIRMAN: That completes the answers to you, Mr. Winch.

Mr. LALONDE: The other answer had to do with the change in plans for the agriculture building. From the time—I think it was in 1959—when the design was for what they call a curtain wall with open windows with aluminum sidings, the estimate for the wall was \$950,000. In 1963 the architect was asked to redesign to precast concrete shading units, and the estimate for that was \$1,110,000.

This can be argued one way or the other; \$950,000 in 1959 against a \$1,110,000 in 1963: I would say the two prices are pretty close to one another and there is not very much difference between the two types of construction.

Mr. TARDIF: Yes, Mr. Chairman, the original cost; that can be argued. But if asked for the original cost and then you change it and it costs over a million dollars more, that can be argued. Who makes those decisions? You have just said that it cost a million dollars more to change the curtain wall.

Mr. LALONDE: No, I did not. If we had gone ahead with the curtain wall it would have cost \$950,000 in 1959. We did not go ahead with that so we did not spend the money. Instead of that we are going to spend approximately \$1,110,000 for the precast unit that replaced the curtain wall. There is really no difference between the two.

Mr. TARDIF: No difference between \$900,000 and a million, too?

Mr. LALONDE: Well, \$950,000 on the basis of prices in 1959 is pretty close to \$1,110,000 on 1963 prices; so I consider there is no difference.

Mr. TARDIF: And the architect's fees.

Mr. LALONDE: That is something else altogether.

Mr. TARDIF: Who makes those decisions, Mr. Chairman, that there should be changes after the original plan has been accepted?

Actually, while you say there is not a great deal of difference between the wall that was originally planned and the wall that has replaced it, there is a difference of about \$4 million in the cost of that building from the original estimate.

Mr. LALONDE: I explained all that this morning, Mr. Tardif.

Mr. TARDIF: Well as long as everybody is satisfied.

The CHAIRMAN: The architect would receive his 5 per cent on both those amounts—the \$950,000 and—

Mr. LALONDE: Three per cent.

The CHAIRMAN: And 3 per cent on the \$1,110,000 as well. Each time it was changed the architect got 3 per cent?

Mr. LALONDE: That is right. It did make a difference but this was due to the decision, to put the building in that location.

Mr. BIGG: It was not the architect's fault that he was asked to submit new plans. He was doing another job at the same rate for the same type of service. Is that correct?

Mr. LALONDE: That is right.

Mr. TARDIF: Well, there is a question which apparently was not answered this morning, because the people who are here are still asking the question: What I would like to know is: who is responsible for making these decisions?

● (4.00 p.m.)

The CHAIRMAN: I think you are a little behind in your reading, Mr. Tardif.

Mr. TARDIF: I will read the evidence in three weeks, when you have it printed.

The CHAIRMAN: There were the different ministers and the change of location from downtown to the farm and so on. This brought about a lot of these changes.

Mr. TARDIF: Four million dollars worth.

Mr. THOMAS (*Middlesex West*): I think for Mr. Tardif's benefit it might be pointed out that there was the equivalent of three sets of plans drawn for this building before finally it was acceptable and used for the purposes of erecting it.

Mr. TARDIF: From the appearance of the building to me you should have accepted one of the first plans because it is an absolute abortion.

The CHAIRMAN: Would the Public Works Department not be responsible in this regard? The architect was asked to submit plans to you and you did or did not tell him you wanted a curtain wall construction. You left that to the architect I suppose?

Mr. LALONDE: He submits his own drawings with his own ideas. That is why he is hired as a consulting architect. Otherwise, we would do all the designing ourselves. I think we went over that this morning.

We either accept or change his design if it is not satisfactory, not only to us, but to our client; because, in effect, we only built one building for ourselves. We always build for someone else, and we have to take into account our clients' desires and their requirements. Therefore, if they do not like something, we submit it to them and they have the authority to request changes, provided they are reasonable.

Mr. TARDIF: I do not know if my next question is one that has been answered already but, if it is, you can tell me. Once the plan is accepted and it happens that the client changes his mind in the meantime, do you submit the plan to him again?

Mr. LALONDE: Oh, yes.

Mr. TARDIF: And if the client changes his mind again you submit it to him again?

Mr. LALONDE: That is right, Mr. Tardif. Whenever the government, or the executive authority in any department changes, he or they have the right to know what is going on.

Mr. TARDIF: I wonder, Mr. Chairman, if it might be a good idea to suggest to the Department of Public Works that they adopt the practices that are followed in private industry. If they change a president in private industry and a factory has been designed and accepted, they do not normally submit it to him again so he can change it at his whim and increase the cost.

Mr. LALONDE: I submit to you, Mr. Tardif, that that is the wrong approach to what the Department of Public Works does. I am quite convinced now, after three years, that the control role in this field should be with the Treasury Board, not with the Department of Public Works. I think we should be a service department, and that is the way we intend to operate as soon as we re-organize.

We are not truly the owner of the whole government. Each Department has to set up their own requirements and we are there to service them as experts in the construction field. I think the control should be exercised by the Treasury Board.

Mr. BALDWIN: The problem is, Mr. Lalonde, that your clients are often temperamental.

Mr. LALONDE: They have the right to be.

The CHAIRMAN: Are there any questions on this.

Mr. TARDIF: Mr. Chairman, I have to disagree with Mr. Lalonde when he says that the client has the right to be temperamental at the cost of the taxpayers of Canada.

Mr. WINCH: It would have to be a Cabinet Minister that is the client—

Mr. TARDIF: I do not care what his name is.

Mr. WINCH: —as far as public works is concerned. That is the problem and am I correct there?

Mr. LALONDE: I do not disagree with the principle expressed by Mr. Tardif, that the client department should not be allowed to spend public funds unnecessarily. But I say to you that that function, to make sure that public funds are spent the right way, belongs to the Treasury Board. It does for everything else so why should it not for construction.

Mr. TARDIF: Mr. Chairman, if it belongs to the Treasury Board I do not disagree with that. Would they not in turn require the advice of the experts in the Department of Public Works so that the expenditures are wisely made?

Mr. LALONDE: That is quite correct, and that is the way we are asking to operate now.

Mr. TARDIF: I hope you succeed.

Mr. LALONDE: So do I, Mr. Tardif.

The CHAIRMAN: Mr. Lalonde, you spoke of a new system or schedule or re-organization. Have you anything to tell the Committee on this at the moment or will we get that later?

Mr. LALONDE: It is a very complex undertaking, Mr. Chairman. We have been working at it now for a year. We know where we want to go and we know the principles that we would like to apply. We want to decentralize authority.

As I said this morning, there is no one man in this department who can claim to know everything. There is too much going on and it is going on all across Canada. We want to decentralize the functions and the authority—not only the functions, but the authority as well.

We know where we are going; we have an implementation team that has already started to work on this under Mr. Williams' direction. But you must realize that with the same number of people we are going to have to run our new organization, to set it up, not only on paper but physically and at the same time do our daily work. This has to be done without a dual organization and, that is going to be complicated and complex for the next 12 to 16 months.

When we reach the stage where we can set up our regions and get them to operate, we hope to decentralize not only the administration in detail, but the design, the construction, supervision and everything to our regions.

The CHAIRMAN: Mr. Bigg is next and then Mr. Winch.

Mr. BIGG: Is it possible to get some member of the Treasury Board before us some time. It seems to me that the Treasury Board is the bottleneck in a

great many instances. I would like to have some member of the Treasury Board explain to us why it is so difficult. I know it is difficult, with the detailed decisions they are expected to make in so many widespread departments, and the tremendous building programs and so forth.

The CHAIRMAN: Mr. Bigg, on June 23 we are having Treasury Board before the Committee, and they will be able to answer that.

Mr. WINCH: I know the section we are on, but in view of the way the questions and answers have gone I wonder if I could ask this question now: Could the deputy minister advise this Committee what is the line of demarcation between the Department of Public Works using its staff for architecture and engineering planning and the use of outside architects? Who makes this decision?

Mr. LALONDE: We work on the basis of the policy that we have a basic establishment of a number of architects and engineers to do the liaison with our client departments, to do the design of smaller projects where it would not be economical to go to a consultant every time. This would apply, for instance, to the design of post offices up to a certain level. We hire outside consultants, either in the field of architecture or engineering, on our bridges and rivers projects, for instance, because the volume varies from place to place and from time to time.

If we were to attempt to set up an establishment to take care of our needs at all times you would have to have an establishment based on our peak load, because otherwise we could not take care of those times when we do have a peak load.

Instead of that, we use outside consultants, not only because it gives us more flexibility, but because you must remember that these people in many cases do a greater variety of design than we would do. They are in business, perhaps in a different way than an architect or an engineer who is strictly on salary. I think there is a certain amount of competition that goes on amongst consultants that would not go on if we were to do all of our designing. I still want our people to do some professional work, but not all of it.

This is exactly the same principle that we operated on after World War II in the veterans hospitals where we used outside doctors so that they would have an incentive to keep up to date and they would have more varied experience than the civil servant.

Mr. WINCH: Mr. Chairman, I am not quite happy with the answer. What is the line of demarcation between what you do and—the next part of my question is—who tells you what outside architect to employ if you are going outside your own branch? How do you decide what architect it is going to be.

Last Friday I was at the opening of the new medium security. Where is your line of demarcation and who decides what architect is going to be called in. Does that come under your department? Who makes the decision?

Mr. LALONDE: Up to a point, Mr. Winch. I am not quite sure as to what you mean by "line of demarcation". If you mean a money line—

Mr. WINCH: No, I mean where do you stop using department architects and engineers on the drafting of the plans and the engineering. When does it go outside and, if it goes outside, who makes the decision as to what architect is

going to be employed on this outside planning? I would truly like to have that information.

Mr. LALONDE: I will have to divide my answer in two parts then, because there is somewhat of a difference in the field of architecture for building construction and engineering design for marine works or for roads and bridges. They are not handled quite the same way.

We do more of our own engineering design—although we use consultants from time to time—for bridges and highways and marine works than we do for building construction. Of course, there is more building construction than anything else.

Mr. WINCH: But on buildings how do you do it?

Mr. LALONDE: On buildings, where the design is one that we can use more than once—for instance, a design for post offices, which can be used in various places with minor adjustments—we do that ourselves. When it is a federal building, or a larger project requiring a specific individual design, we go for a consultant.

Mr. WINCH: Who decides on that consultant?

Mr. LALONDE: What we do when we want to hire a consultant is to look at a list of consultants practising in the area—if it is not a national project, or if it is a national project all across Canada—and we list the number of persons that we consider capable of doing the job. We submit that to our Minister.

Mr. WINCH: Who makes the selection?

Mr. LALONDE: We are told by our Minister to choose so-and-so amongst those we have recommended.

Mr. WINCH: You recommend to your Minister those whom you think are in this field, and the Minister makes a selection and you are told whom to employ?

Mr. LALONDE: That is right.

Mr. WINCH: How would a Minister know who is the right man, for instance, on the live medium securities we are building across Canada right now?

Mr. LALONDE: Not being a minister, I would not know.

Mr. TARDIF: I want to get back to your decision that your department will have the administration in different districts, and I am wondering whether precautions have been taken so that all these different districts will not become empires that have a tendency to grow constantly.

● (4.15 p.m.)

Mr. LALONDE: We have at the moment 18 districts in Canada, and all we are going to do is group them into regions.

The reason for that is quite simple. Under the regional system of operation we are going to be able to place men in charge of the region and give them a great deal more authority than the 18 men across Canada would have had as district directors. That stands to reason. This is the type of organization that you find, I think, in any industry where certain people have certain authority at head office. But their regional offices also have a great deal of authority to operate in what I would call a more autonomous way than we have been operating

until now because really all of our decisions above what I consider peanuts by today's values—\$5,000—have been made at head office. I think this takes a great deal more time and a great deal more correspondence. If we cannot trust a man to be able to administer within a regional project, let us say, up to the value of \$200,000, by today's standards, then he should not be where he is. I think we have to trust these people, not to build an empire but to do a good job.

Mr. WINCH: There will be amendments?

Mr. LALONDE: Oh, very definitely.

Mr. WINCH: Could I ask a straight supplementary question? Are you prepared, as Deputy Minister—because we have to put some onus of responsibility on you, sir, in answering questions—are you prepared to tell this committee that there should be a change in either regulations or in legislation because of increasing costs? That is, that in the allowable amount which shall be operated on regionally—say, your own headquarter's position and cabinet—there shall be vast increase in the allowable permission for the granting of contracts?

Mr. LALONDE: That is what I am requesting from the Treasury Board right now.

Mr. WINCH: Will you make that a little more detailed now for the Chairman and this committee, because it is an important matter to us.

Mr. LALONDE: At the moment the Deputy Minister's authority is restricted to any project up to \$50,000.

Mr. WINCH: What is the regional?

Mr. LALONDE: None. There is no region now. The district is about \$5,000, I think.

My recommendation—and this is perhaps somewhat revolutionary—is that Treasury Board give me up to \$200,000.

Mr. WINCH: Without going to Treasury Board?

Mr. LALONDE: Without going to Treasury Board. I am prepared to take the responsibility for delegating the same amount to my regional directors, and I will be responsible for what they do. If they do not do well either they will lose their job or I will lose mine. I think that is the only way to operate a business the size of ours.

Mr. WINCH: Well, how do you operate now with your limitation of \$50,000?

Mr. LALONDE: Well—

Mr. WINCH: Beyond that you have to go to Treasury Board?

Mr. LALONDE: We do a great deal of paperwork that I feel we should not do and we use professional people in a way that I do not think we should use them. They are letter-pushers in many cases, and that is not good.

Mr. WINCH: I am sorry, Mr. Chairman. As you know, this is very important. You have said you use the professional men on paperwork because of this limitation. What would be the greater efficiency if you could have this—

An hon. MEMBER: Delays, for one thing.

Mr. LALONDE: I cannot explain this to you without telling you what we have in mind. Instead of working by branch, at head office and in the field, with

a sort of compartment between each branch and a smaller component in each district, what we propose to do is to put all our planning together for everything we plan. To this end, we have appointed an assistant deputy minister of program planning. His job is going to be to co-ordinate all of the planning done in all of the regions, and to liaise with the client departments at head office to prepare something we discussed this morning, I believe—the long range plans not only for our department but for other departments as well.

Once the program has been approved by the Treasury Board—by the executive I should say—and by Parliament, because it will be in our forecast when we submit our estimates each year—there will be a ten year forecast in there; at least five years to start with—once the program has been approved, the design of all projects will become the responsibility of another assistant called the assistant deputy minister of design. We will have all of the planning co-ordinated by one man, all of the design co-ordinated by another and then the operations including the construction will be under the senior assistant deputy minister of operations.

These are the three functional heads working with the deputy minister, and I am leaving aside the finance, the personnel and the administrative services.

The region will operate directly through the senior assistant deputy minister in charge of operations. There will only be one line of authority. Each of the six regional directors will be personally responsible to Mr. Williams, and they will deal directly with each other.

Once a plan has been approved by the executive and by parliament, for ten years, this will go back through the senior assistant deputy minister to each region and there, unless it is a special project such as the museum, or the post office in Toronto—some of those huge projects—\$25 million and over—unless it is one of those, we want the design to be done in the region.

I think this touches the very point you were making when you were talking about your medium security institution on the west coast. We would like to see that designed and built under the supervision of people who live in that area and know the special conditions. This applies even more to the marine works program because those who design the marine works have got to be on the spot. It is pretty hard to design an engineering project from 2,000 miles away. That is really the only basic change in the whole thing.

Mr. WINCH: Where is your block; where is your blockage.

Mr. LALONDE: What blockage.

Mr. WINCH: You have not got the authority, is that it?

Mr. LALONDE: Oh, no; we are in the process of getting it. There is no blockage; it is just time now. We started the work on the implementation three months ago, and we have to redesign a complete organization. This is what Mr. Williams has been working on. But, you see, while Mr. Williams is working on this, Mr. Jackson has to take on, in addition to his duties, Mr. Williams' duties, and all of us together have to do double duty until we are set to go with the new organization. This is the difficult part of it.

I know where we want to go and I think the Treasury Board will give us the authority but this sort of thing takes time. We could change this thing in short order if we could declare a moratorium on all public works for the next six months. I would guarantee to have the thing going; but we cannot do that.

Mr. THOMAS (*Middlesex West*): Mr. Lalonde, this is a master reorganization. Did you bring the civil service organization services in on it?

Mr. LALONDE: No; we hired an outside consultant. He worked with us for ten months.

Mr. THOMAS (*Middlesex West*): You hired an outside consultant?

Mr. LALONDE: That is right.

Mr. THOMAS (*Middlesex West*): Was it a costly venture? Do you think it will pay off?

Mr. LALONDE: Well, if we do not do this we will be in such a straitjacket within the next five years that it is not going to be funny.

Mr. THOMAS (*Middlesex West*): What would be the fees for a consultant?

Mr. LALONDE: I think it cost us about \$175,000.

Mr. TARDIF: Mr. Chairman, is this plan of the Public Works Department in accordance, or nearly in accordance, with the recommendation made in the Glassco report?

Mr. LALONDE: That is in accordance with it, Mr. Tardif. That was the basis on which we started this development.

The CHAIRMAN: Well, I think we have strayed a little bit, but it has been very educational and—

An hon. MEMBER: I think this would help us on June 23 with the figure there.

The CHAIRMAN: It should provide better control and we may find fewer items in this book after we get this system working.

Mr. LALONDE: I do not want to give the impression that Treasury Board is not co-operating with us, because they have accepted positions and we have been running competitions, as you probably read in the papers, and we have begun to appoint people to fill the new jobs. They are at work.

But when I say "they are at work"—I mean they are at work on the new organization, not on the day-to-day operation.

An hon. MEMBER: I was suggesting that Treasury Board is ham-strung by their own regulations and that Parliament can help them loosen up.

An hon. MEMBER: One final question: In other words, in the past has not your department been ham-strung, let us say, by too gosh damn much—I say "gosh damn"!—red tape which results in complete inefficiency and lack of control.

Mr. LALONDE: Well, we have had so much volume—and I do not claim to be an authority because I have only been here three years—but we have had so much volume that I think we have spun some of that red tape ourselves in the process.

An hon. MEMBER: There is no red tape in government administration.

Mr. LALONDE: Well, let us say there is tape.

The CHAIRMAN: Now, No. 15.

Mr. LALONDE: I think I will let Mr. Mills answer that one, Mr. Chairman.

Mr. HENDERSON: Number 15 is on the non-productive expenditures on page 172 of the Auditor General's Report.

15. Additional costs due primarily to construction delay, St. John's, Nfld.—A contract for the construction of a post office building at St. John's was entered into in 1957. Excavation for the basement revealed an underground spring. In order to overcome its hydrostatic pressure it was necessary to redesign the boiler room floor slab. Work on the project was halted for six weeks while the revised design was prepared, and the final payment to the contractor during the year under review included \$18,724 for costs attributed to the delay.

Owing to the increased thickness of the hydrostatic floor slab referred to above, the contractor was ordered to increase the elevation of the first floor slab. After basement walls had been poured to the increased elevation, it became evident that the elevation created problems in suiting the entrances to street grades. When an analysis of the minimum height requirements of the boilers and ancillary equipment indicated that the equipment could be accommodated without increasing the ceiling height to compensate for the hydrostatic floor slab, the contractor was directed to reduce the ceiling height to that provided by the original design. An additional cost of \$4,646 was incurred in connection with this reduction.

This is about how an underground spring, encountered in the excavation for a post office building in St. John's, Newfoundland, made it necessary to redesign the boiler room floor slab and an additional cost of \$18,724 resulted.

Additional costs of \$4,646 were incurred when other innovations to the building were changed, but it was subsequently found that the change was not workable and actually not necessary.

Mr. TARDIF: Mr. Chairman, the other items, the non-productive payments up to this number, I guess they were looked after this morning were they?

Mr. A. K. MILLS (*Assistant Chief Architect, Department of Public Works*): Mr. Chairman, in respect of this job it should be borne in mind that this site was completely covered by buildings and it was impossible to get a grid of test borings over the entire site, and therefore this spring was not discovered.

In addition to the spring, the survey indicated that a lane which adjoined the old post office, and which formed a part of this particular site, was the property of the crown. In the preparation of the plan we envisaged changing the grade of this lane so that we could have more easy access to our loading platform.

It transpired that we did not have clear title to this; that there were businesses who used this lane to take in goods through their back entrances, and we eventually were compelled to abandon our original idea. We could only do a very minor bit of grading, with the result that in addition to the redesign for hydrostatic pressure we had to redesign all the loading bays for the mail lobby. The time taken was required for the plans to be prepared and for the contractor to price the various items.

The CHAIRMAN: Are there any questions on that?

Mr. TARDIF: Mr. Chairman, all these appear to be about the same thing and probably the same questions could be asked of every one of them. I am worried about what happens to the people who are responsible for faulty specifications

and drawings, or what happens to the people who are responsible for causing delay in construction? What happens to these people?

An hon. MEMBER: And also that we did not have clear title?

Mr. TARDIF: Yes. It is only an amateur who would build something on a piece of land without first having the assurance that he had title. If an officer of the department is responsible for things like that what happens to him?

Mr. MILLS: It was not an officer of the department. This was a survey prepared by a firm of consultants, and it indicated that this property—crown owned—if you had any experience in Newfoundland you would know that titles are extremely obscure anywhere in Newfoundland—

Mr. WINCH: But the point there is, of course, that although it may be obscure, can we have an answer to why, irrespective of what the title situation is in any province, the federal government should proceed with any work whatsoever until the title is cleared. That is the point which I think the members would like to raise—why, until the title is cleared?

Mr. MILLS: When we get a survey we assume that they have checked the deeds, and that what they state in this survey and the accompanying documents is factual.

Mr. WINCH: You have partly answered my question. You said, you assume. When the federal government is going to spend money on construction, or any kind of work whatsoever, is it right that you should assume that the title is cleared?

Mr. MILLS: We hire these people for their professional competence and we expect that the answers given to us are factual.

Mr. LALONDE: Well, perhaps I can clarify this although I cannot justify this particular one.

Since these experiences have occurred it is now our policy—sometimes it is not too popular—that when we are not sure of the title we do not wait; we expropriate and check afterwards.

Mr. WINCH: In the case of No. 15 the matter is now taken care of under the new operation.

Mr. LALONDE: Yes; but it does not resolve that problem.

The CHAIRMAN: This is another instance of hiring consultants who gave you wrong information. The same as in number 14 you hired consultants about the subtesting of the soil, and you got a bum steer from them, and now here is another consultant who gives you another bum steer.

Mr. LALONDE: Yes, Mr. Chairman; but both these consultants that you are referring to got their full fee.

The CHAIRMAN: I understand they got their fee—they were paid.

Mr. MILLS: They get the fee whether they do the job well or not.

Mr. LALONDE: I have not got the wording of it in front of me, but I think that under the contract they are only responsible for negligence in the performance of their duties. To be good or bad does not entail paying for it apparently. You have to prove that there was negligence and this—

Mr. TARDIF: I was looking back, Mr. Chairman, on every one of these, but on Clause No. 3 I added a little note there the other day to the effect that the extra cost of \$28,868 was due to faulty specifications and drawings. Was that done by somebody in our department, and, if it was done by somebody in our department, what action was taken by the department to see that these things do not recur? As a matter of fact, what has happened to this employee? I fully realize, Mr. Chairman, that you cannot run a department as large as the Department of Public Works without some mistakes, but these appear to repeat themselves often.

Mr. HENDERSON: If you pardon my saying so, Mr. Tardif, this happens to be a national defence item which we have not considered yet. We are just dealing with the public works ones.

Mr. TARDIF: I will keep it in mind.

I did not get an answer, Mr. Chairman, to my question about what happens to these people who are responsible for causing construction delays in many of these items in the list of unproductive payments.

Mr. LALONDE: I am not sure of what you mean, Mr. Tardif, what happens to whom? Do you mean that all of us should be fired?

Mr. TARDIF: I would not say that all of you should be fired, because I do not think that anybody should think that the deputy minister is responsible for every small accident that happens in his department, particularly a department as large as yours. But in many of these unproductive payments there are a great many charges which are caused by delay in construction, where the specifications were reviewed or changed, and somebody must be responsible for one of these projects? If the man responsible for one of these projects does that often enough what happens to him?

Mr. LALONDE: I do not think, Mr. Tardif, that that is the way that we can operate, nor is it the way business can operate. Can you imagine what would happen if a firm of lawyers were to fire all those who mishandle a case and lose it?

Mr. TARDIF: Yes; but I do not think this is a good example, because lawyers are paid for their mistakes. You do not have to worry about them. They get paid whether they lose or win.

The CHAIRMAN: Well, Mr. Bigg has a question, and then Mr. Thomas.

Mr. BIGG: I do not want to be the devil's advocate, but it seems to me that with the thousands of cases in every category we are having here, is it not alarming that God interferes with the weather in one and somebody slips on a plan in another?

Again, I will get back to my old theme, that I would just like to make sure that the door is closed as often as possible on this in the future: that a note is made, and that the department—and I know they do—puts a star alongside these items and says, "This will not happen again in my department, and we will do what we can."

Mr. LALONDE: When you consider the thousands and thousands of contracts that go on every year, and you consider the number that you have reported—some of which I do not agree are bad administration—I think the percentage is rather small; and certainly I have seen business firms where it is much higher.

Mr. BIGG: I do not want to detract from your statement, but do not forget that the Auditor General can only make a spot check—only a spot check, and out of this we get 21 in your department; and this is only a spot check. This is the concern of this Committee—this only being a spot check. How prevalent would it be if a full check was made? Do you understand my statement there?

I am going to ask him now Mr. Chairman. How often would you say that a spot check is made on the Department of Public Works, on matters which you have now drawn to our attention.

Mr. HENDERSON: I did not quite get the first part of your question, sir.

Mr. BIGG: It is my understanding that on matters which we now have before us that you only make a spot check, or am I wrong?

Mr. HENDERSON: I would suggest that Mr. Smith speak to that because he is my director in charge of the public works department.

Mr. D. A. SMITH (*Audit Director, Auditor General's Office*): Because of the obligation placed on the Auditor General to focus attention on instances of non-productive expenditure items, and because items of this nature are more likely to occur in the Department of Public Works than elsewhere, we concentrate, in our audit of that department, to a greater extent on this particular feature. Our examination goes beyond a spot check, in the usual meaning of the term.

I think it is safe to say that what we do report covers the major items of this nature which would come up in the department from year to year.

Mr. BIGG: Are there many small items which we are not considering here, which are below a thousand dollars, or something like that?

Mr. SMITH: That is right, sir.

Mr. HENDERSON: We make a practice of putting in only the larger ones and we discuss each of these paragraphs, as Mr. Lalonde knows, with him and his officers, as to the correctness of our information and discard a number of them where the point is perhaps a duplication, or the amount absorbed is not large, or there is some question as to whether in fact it is non-productive.

You must bear in mind, as I said earlier, that we have no firm definition from this Committee of what "non-productive" means. I interpret it, and would repeat it again, as being instances where money is paid and no values received.

I would like to say that in considering the public works items you must remember that it is essentially a servicing department and that the root cause for a number of these, as has already been brought out, does not rest with that department. They are dependent on the planning of other departments, and it is because this point was brought out by you in your discussions in 1964 that in my 1965 report we have gone to some pains in reciting some of the larger non-productive expenditures—and we will be coming to those paragraphs—to show you the circumstances leading up to them and what caused the large increases or non-productive payments to be incurred. We have gone to particular pains to do it in the 1965 report, which we are coming to right after these 1964 non-productive items.

Mr. WINCH: Mr. Chairman, this is not a question to the deputy minister, but I would like to ask a question of you, sir, and perhaps even of Mr. Henderson: In view of the information we have received, and in view of your statement

now, that the Department of Public Works basically is not responsible for the non-productive items which appear in your report under that heading, do you feel that consideration might be given, as an instruction, perhaps, from this Committee through the Chairman, in the next year to some method of reporting whereby we not only get, in our report from you as Auditor General, what we have now, but also an indication of where the ultimate responsibility lies? Or is that asking too much?

Mr. HENDERSON: If we could return to this point Mr. Winch after you have considered the cases that we bring forward on the 1965 report, all of us will be better informed on this, because I have done just that in showing what has caused them.

We do not have an appendix for the non-productive items in 1965, we just have a short listing under a paragraph. We have cut down on the number, and we have set down the story about the major ones in what I believe to be a fairer method.

I should like to know if the Committee agrees with that approach when they have discussed the 1965 one. That, I think, will answer your question.

Mr. THOMAS (*Middlesex West*): Well, I do not want to take too much time of the Committee, Mr. Chairman, but Mr. Lalonde spoke of "confused" or non-clear titles and he said that where these occur—in various areas of the country—it is the policy of the Department of Public Works to expropriate the property without waiting to clear the title. My question is: How could expropriation help in this regard?

Mr. LALONDE: In some cases it is the only way to get the title cleared because of some quirk in the registration of the property; and you get it cleared through expropriation.

An hon. MEMBER: You usually find that where there is no will and so on you may have to wait three years for a cleared title in the normal process.

Mr. LALONDE: Perhaps Mr. Freeze might explain that to you.

Mr. D. FREEZE (*Director, Property and Building Management Branch, Department of Public Works*): The act of expropriation, in fact, does vest all interests in land in the expropriating party—in this case, the federal government—and it does extinguish all rights of everybody else in that particular piece of property as of the date of expropriation.

Those who had rights in the property then translate their right into a claim for compensation and are paid the value of their right. I hope I am making myself clear.

An hon. MEMBER: Who decides what their right is? Is that done by the Courts?

Mr. FREEZE: If it is not clear as between the legal officers of the crown and the expropriated party, or his representative, it goes to the Exchequer Court of Canada and is cleared there.

An hon. MEMBER: It is a device to force these matters into court.

Mr. FREEZE: Well, it is a device to get the title into the hands of the crown. Yes; it is to save time—so that we can get on with our job.

I wonder if I might just say a word about that right of way, and this business of finding as time goes on rights of which we were not aware before.

What we used to do in the department—and this has been corrected, as Mr. Lalonde explained—was to take parallel action, quite often, of selecting our property, possibly expropriating it, and having the plans and specifications prepared parallel to cleaning up the legal details of the site. This did get us into trouble in the past on occasion and I think that is the point you made. But that particular procedure has been pushed back in some respect.

In many instances the rights are only discovered by a search of the title by lawyers appointed by the crown, who go to much greater lengths than could the real estate people of the department, or the dominion land surveyors who do the survey, because the chain of title, in some cases, goes away back, particularly in Newfoundland; I think it is well to remember that prior to 1949 they were not a part of the federal government, and some of the laws that applied there were not the laws that apply now.

The CHAIRMAN: All right. We now come to No. 16.

Mr. HENDERSON: That was the completion of the work on the Sir Charles Tupper building on Confederation Heights, which was delayed while consideration was given to revised plans which ultimately were not used.

An additional \$22,960 was paid to the contractor as compensation for the delay.

● (4.45 p.m.)

Mr. BALDWIN: Mr. Chairman, may I make a suggestion here? I have read through these, and there is a lot of similarity in them. I would suggest that Mr. Henderson give us, as he is doing, a very brief and succinct explanation and then, unless the members of the Committee ask for something further, we do not necessarily need to call on the Department of Public Works for the 1964 report.

Mr. HENDERSON: Shall I proceed and then you can raise the question?

Mr. TARDIF: The same question applies to practically every one of these clauses. What happens to the fellow who is responsible for this? He gets plans made that are not even considered when it is all over.

Mr. LALONDE: Nobody was responsible for this in Public Works. If you want to start asking that question I am going to have to give you the explanation because there is a simple explanation in each case.

In this particular instance, not only do I not consider this a non-productive payment, but I consider that we saved a lot of money by doing what we did in this case. I would ask Mr. Jackson to explain it, if you do not believe me.

Mr. TARDIF: I did not say that I did not believe you, sir.

The CHAIRMAN: Could you give us a brief explanation, Mr. Jackson, of how you saved us some money. We are entitled to hear where you saved us some as well as how you cost us some.

Mr. JACKSON: Mr. Chairman, just to make it brief, I would like to give you just a little bit of back history because it applies to two other cases that the Auditor General has referred to in his 1965 report.

In 1954 a committee of senior government officials was set up to develop the Greber plan, and this involved the establishment of a number of depart-

ments to be housed out at Confederation Heights. There was an indication, at that time, that the Department of Public Works would probably become the construction agency for all of the government service. Therefore, when the planning was made as to the amount of space required for the department it took into consideration the fact that there would probably be construction branches from other departments coming to us, and the areas were developed on that basis.

In 1957, at about the time that the tenders were being called, there was some consideration being given—and had been given a year or two before that and continued into 1957—to provide better housing for the honourable members of the House of Commons, and this building in which we are now sitting was the building that was being considered. There were a number of government departments housed in this building. In order to move those departments, the Department of Public Works was asked to look at other locations for the various departments, and to re-examine their own requirements in the Sir Charles Tupper building for which the tenders had just been called.

We had, in the meantime, developed some better standards of accommodation than we had in the past, and, coupled with the desire to provide for one of the departments and a recognition that all of the construction business was not going to come to us, we re-examined the whole field and decided by shortening up or tightening up the amount of space that the departmental officials were going to be provided with, we could house the Department of Fisheries in two wings of the department.

The contract had been awarded. We had to work out the details with the Department of Fisheries as to the amount of space required. This created some delay, and about the time we moved in 1959 and the Department of Fisheries moved in 1960, there were a number of changes that had to be made for the test kitchen for Fisheries, and a number of other requirements; this involved additional expenditure over and above the original contract but it also involved some delay in working out the details.

This is the basis on which this additional amount was paid. The contractor originally asked for payment for seven months' delay and we settled for five.

The CHAIRMAN: Number 17.

Mr. HENDERSON: In this case, consultants were employed to prepare plans and specifications and to supervise construction of additions and alterations to a public building in Halifax. It transpired that the firm was not capable of designing mail handling equipment satisfactorily and another firm was engaged for the purpose.

The delay caused the building contract to be delayed and, in turn, an additional cost of approximately \$21,000 had to be paid to the building contractor.

Mr. WINCH: Mr. Chairman, I have one question. If you look at the bottom of the page you will notice the words “—delay in completing plans for mail handling equipment—” et cetera, resulting in a payment of \$21,000. The question I would like to ask is this. In view of the fact that, according to what the Auditor General had to say, this loss was incurred because of a certain factor, could I have an answer to why it was that in March of 1960 the department requested certain people to handle a certain phase of work, but it was not until

12 months later that the department said that they were not qualified. I presume that it is because of the fact that it took 12 months for the department to decide that certain consultants were not qualified that this payment had to be made.

Why did it take you 12 months to find out that these consultants were not qualified?

Mr. MILLS: In the first place, these consultants approached us to do the mail-handling equipment, and said that they had had previous experience in this type of work.

We investigated them and were not entirely satisfied that they were competent to do this particular job, but we finally agreed to let them produce a preliminary scheme in order to prove their statements. I cannot say, at the moment, how long it took them but I do know that it took quite a little while.

Mr. WINCH: It took 12 months.

Mr. MILLS: No; excuse me. We then sent the thing over to the Post Office and they examined the thing and came back and said that it was not in any way suitable to them. We sent the thing back to the consultants and they made further changes, and this was also rejected. We then took steps to engage another consultant to do the mail-handling order.

Mr. WINCH: I think you missed the purport of my question. We are faced, as representatives of the taxpayers on the Public Accounts Committee, with a situation whereby—I do not know what term to use—but back and forth and back and forth they go, and after 12 months they decide that the consultant firm was not qualified. Because of a delay of 12 months then we are faced with this expenditure.

Surely something is wrong where it requires 12 months to decide whether or not somebody can do a job.

The CHAIRMAN: Maybe I could ask a question supplementary to yours, Mr. Winch? The Department of Public Works agreed that these consultants were not competent in the first place, and then—

Mr. WINCH: And 12 months later they decided they were not qualified.

The CHAIRMAN: Wait a minute. Then they weakened and took them on as consultants. I would like to ask if outside pressure was brought to bear on the Department of Public Works that made them change their mind and take on these consultants.

Mr. MILLS: The only thing I can say in reply to that is that it was the deputy minister who requested that they be given an opportunity.

The CHAIRMAN: We cannot exactly blame the Department of Public Works or that.

Mr. WINCH: Can I get this please. It was the deputy minister of what who asked that they be given a chance?

Mr. MILLS: Public Works.

Mr. WINCH: The Deputy Minister of Public Works requested that they be given the opportunity although you knew, or thought, that they were not qualified?

Mr. MILLS: When we said that from what we knew of them—

Mr. WINCH:—that they were not qualified?

Mr. MILLS: That is right.

Mr. WINCH: And are you saying that after knowing, in your opinion, that they were not qualified, the Deputy Minister of Public Works asked for them to be given an opportunity, and it took you 12 months to decide they were not qualified?

Mr. MILLS: I do not know at what time the deputy said that we should let them try. I can check these dates and let you know later.

Mr. WINCH: Therefore, you held up this matter for 12 months because the deputy minister said that although they were not qualified they should be given an opportunity to try? Then you turn them down as not being qualified, and at the end of 12 months you get somebody else and now we have to pay for this expenditure? Is that what you are telling us?

Mr. LALONDE: I do not think that is quite right, Mr. Winch. I do not think that is what Mr. Mills has said, I think that what Mr. Mills said was that at the beginning when the choice of the firm of consultants to do the mail handling equipment was considered, our people, or at least the people who were in the Department of public Works at that time, had doubts about the ability of the firm because, as I understand it—and I am not going to say it is an absolute truth—

Mr. WINCH: Were not qualified.

Mr. LALONDE: Let me finish—as I understand it there were very few Canadian consultants with experience in engineering conveyor-belt systems for mailhandling equipment at that time. It is quite possible that when Mr. Mills says that the deputy minister at that time said, “Well, we will give them a chance” that there were not very many people around whose capacity to do that was determined by previous experience.

The only way they could find out if these people really could do the job was to let them try. It took a period of 12 months, during which two sets of plans were submitted to the Post Office Department, to determine that both plans were unsatisfactory to the client department.

You cannot infer that this was done in the face of the demonstration of the complete inefficiency of the consultants and the decision of the deputy minister to use them in spite of the proven inability of the firm to do the job. It was not proven at that time.

Mr. WINCH: It did not take you 12 months to decide on the conveyor belt for the post office at Vancouver, which is a fantastic belt system.

Mr. LALONDE: I did not get that.

Mr. WINCH: It did not take you 12 months to decide who could handle the conveyor-belt system in the Vancouver Post Office which is a fantastic conveyor belt.

Mr. LALONDE: What year was that in?

Mr. MILLS: In the case of the Vancouver Post Office we gave it to the architects, and we were satisfied that the staff that they were employing were competent to do the job.

Mr. WINCH: Instead of waiting 12 months here, why did you not, get the same people on this job?

Mr. MILLS: In the first place, I am not even sure that this man is in Canada now. He came out from England.

The CHAIRMAN: Mr. Winch, I think the answer is that the deputy minister told them to hire these consultants that they were to be taken on strength.

Mr. WINCH: But it took them 12 months to find out that they could not do the job, and now we have to face this situation.

I am not going to carry this any further, sir, but I think you will agree that something is wrong when you give 12 months to a firm to find out whether or not they can do a job, and then at the end of 12 months you find they cannot do the job, and the taxpayers of Canada have to stand an extra expense on the general contractor. That is the point, sir, that I am trying to get at.

Mr. BIGG: Would it be fair to say that these plans were again going ahead parallel and that you expected that you would get a proper answer in time to put in the conveyor belt after the building reached a certain level; and that perhaps we erred in trying to get a Canadian consultant to do it, with which I thoroughly agree; and that it was one of those things that perhaps did not pan out.

Mr. LALONDE: A third dimension was thrown into this, Mr. Bigg, and I am experiencing it right now. This mail-handling equipment is changed in its facilities approximately as often as they change facilities in X-ray equipment, by today's standards. What was good a year ago is now obsolete, and it is pretty hard to keep up to date with the very latest of equipment.

Mr. BIGG: You are quite right.

Mr. HENDERSON: Number 18 deals with delays in the preparation of final drawings and layout for an experimental conveyor for the postal terminal at Hamilton, which resulted in delays in the contract for the construction of additions and alterations to the postal terminal and an additional cost of \$9,931 had to be paid to the contractor as a result.

Mr. TARDIF: I was wondering, Mr. Chairman, whether the people who sell this type of equipment also have the specification for it, and, if they do, are they held responsible if the specification is not correct?

Mr. MILLS: They have the specifications. This is a piece of equipment which you buy just the same as you would go out and buy a certain type of automobile. They do the engineering, the manufacturing and the installation.

Mr. TARDIF: Are they responsible for the delay, Mr. Chairman? Is there any way that we can hold them responsible for the extra cost?

Mr. MILLS: We did not, in this case.

Mr. TARDIF: There is another clause, clause 20, to which the same thing applies. It is a very similar type of clause, where a computer system was bought and it was found that the cooling load for the equipment was not accurate. I would imagine that the specification for a computer system is the responsibility of the manufacturer of the computer system.

If they are responsible for causing a delay, I was wondering if there was any way that the department could get the cost of the delay back from them.

Mr. MILLS: I could speak on that later.

Mr. HENDERSON: Just before we come to that, we have number 19, a request by the Post Office Department for a modification of plans to permit the installation of a sawdust extractor in its laboratory and workshop building, which resulted in delay to the contractor, for which additional compensation of \$6,628 was paid to him.

If we can take number 20 along with that, it, as Mr. Tardif has said, relates to delays in the construction of the income tax computer centre in Ottawa which occurred because of a delay in obtaining accurate information, plans and equipment for the computer room and because of a decision to make provision for canteen facilities in the building. This resulted in the contractor being paid an additional \$6,166 to cover additional costs he had incurred due to the delay.

Mr. THOMAS (*Middlesex West*): I note that so far today, in two sittings, we have covered nine of these so-called non-productive payments. I have just counted them, and there are 34, which leaves us 18 more to do. If we are going to have to have another sitting anyway, I do not see too much point in delaying these gentlemen who usually end their day around 5 o'clock.

Mr. WINCH: As far as I am concerned, I have questions on three of the remaining items.

Mr. BIGG: Perhaps we could clear them all now.

The CHAIRMAN: I am glad we have a sympathetic member on our Committee!

Mr. THOMAS (*Middlesex West*): I am willing to sit right here as long as anybody else.

Mr. TARDIF: I think your information is wrong, Mr. Chairman, if you think they quit at 5 o'clock.

Mr. THOMAS (*Middlesex West*): There are eight more to do and we have done nine—

The CHAIRMAN: Would you be agreeable to the Committee and the other officials if we adjourned at 5.30? Would that be reasonable, Mr. Lalonde?

Mr. LALONDE: That would be early for us, Mr. Chairman.

The CHAIRMAN: Is that all right?

Mr. HENDERSON: There are 13 more. You are including some that are not in this department.

Mr. WINCH: Perhaps we could conclude this section? I have only three on which I would like to ask one question; if the other members would co-operate I think, perhaps, we might be able to get through them all, Mr. Thomas?

Mr. THOMAS: If we can cut it short.

Mr. TARDIF: Mr. Chairman, I think Mr. Mills was ready to answer the questions that I put to him to the effect that they are more based on the principle than they are on the amount. If people who supply this type of material to the department—

The CHAIRMAN: The meeting will stop at 5.30 sharp.

Mr. Mills have you an answer for Mr. Tardif?

Mr. MILLS: On the computer centre?

Mr. TARDIF: Yes; the computer centre, or the other equipment that we bought that is in the same class.

Mr. MILLS: As far as the computer centre is concerned, this was our first experience with this type of equipment.

We called in the officials of the I.B.M., along with our consulting engineers, to get the engineering factors for this equipment. They gave us a load of 30 tons of refrigerant, and on the basis of this we designed the equipment.

Some time later, one of the other companies notified us that the load specified would be insufficient. We contacted the I.B.M. people again and they wrote confirming that 30 tons would be sufficient for their equipment. We made no change and we proceeded.

When Income Tax received the tenders, I.B.M. were low and they promptly wrote in and said that this would be sufficient for the equipment only, but it would not take care of the body heat nor would it take care of the lighting.

We had another meeting and we eventually ended up with 40 tons of refrigerant and we put them in—

Mr. TARDIF: The extra 10 tons to look after body heat and light?

Mr. MILLS: Yes, this is what they said. We put in the 40 tons in order that we would be protected.

Mr. TARDIF: Mr. Chairman, there is, in addition, the cost of changing the equipment from a 30 ton capacity to a 40 ton capacity. Does anybody know how much that cost?

Mr. MILLS: I do not have it available.

Mr. TARDIF: It is very easy for any company, including I.B.M., to be low tenderers on equipment if they do not give you the right specifications; and they are not responsible for the additional cost incurred, having given you the wrong specifications.

Mr. MILLS: On the other hand, one of the other companies—whose name slips my mind at the moment—notified us previous to tenders being received, that the 30 tons was not sufficient. This is what started us going back at I.B.M. to find out if the information they had originally given us was sufficient.

Mr. TARDIF: Would it not be logical, Mr. Chairman, that if I.B.M. sent a letter saying that this was the specification, and it was not correct, and this caused a delay, that we should try to recoup the \$6,000 from them—if for no other reason than to give them a lesson?

The CHAIRMAN: Mr. Tardif, you are absolutely right. I say that in view of the fact that the I.B.M. people are getting a tremendous amount of business out of the government in this day and age of computers, and I do not know why the department would not hold their ground on this and protect the taxpayer and refuse to pay it.

Mr. WINCH: Mr. Chairman, I am very glad to hear you say that because, to me, the information that has just now been given is absolutely fantastic that all

you receive from the I.B.M. is the actual weight of their own equipment and they do not include information to a department of the federal government that this is so, but you require the temperatures of the body and all that. I think this is an amazing disclosure that has just been made to us, and it is a matter which I know Mr. Chairman, you are going to take into account when we make a report.

Mr. BIGG: Could I suggest that perhaps our contracts be reviewed to see whether or not the small print could not be "blown up" into big print so that these people know that if they tender on a government contract we will in fact hold them responsible for untoward expenditures due to lack of information; so that if they tender they know what they are facing.

The CHAIRMAN: Mr. Lalonde, did your department recommend to Treasury Board that you pay this \$6,166, and it has been paid to the computer people?

Mr. LALONDE: No, to the contractor. That is a different contract altogether.

I am just thinking out loud now. I am not sure whether we have a legal recourse against a company which says in a letter "It will take you 30 tons" and then comes back and says. "Sorry, we made a mistake". I would hate to have to go to court to try to hold them to the damages, following receipt of that letter. However, I am quite willing to look into it again, subject to the legal opinion which we will get.

Mr. TARDIF: I do not have any legal experience either, but I think that if you enquire and say "Are you sure that 30 tons is sufficient?" And they confirm the fact that 30 tons is sufficient, and then they say that an additional ten tons of capacity is necessary because there is going to be body heat—they should ask about. How many people are employed in a place like that, whether there are two or three people, and how many lights they have got?

Mr. WINCH: That is a most important question.

Mr. LALONDE: This would be different if it were in a tender, and it they said, "We will provide you 40 tons of refrigerant" for so many dollars, and then came along and said, "No; for 40 tons it will cost you that much more". This would be different. There I think we could hold them responsible. But where they say in a letter, "It will take 30 tons", and we accept their work, I am not sure that we can legally hold them to it.

Mr. BIGG: I think so. This is the way it strikes me.

Mr. HENDERSON: I must confess I have every sympathy with Mr. Lalonde's difficulty in trying to recoup this from computer manufacturers. We have not come to the vote yet, but may I just mention in passing, No. 72 in the 1965 report. I do not suggest you bother to turn it up, but it has to do with electronic data processing system abandoned. This was a project in Winnipeg where the Unemployment Insurance Commission, with the idea of saving, I think, something like a hundred thousand dollars a year on its operation, lost two hundred thousand dollars as a result of faulty planning on the installation of a computer.

We looked into this at some length. The failure of this equipment in the Winnipeg case was due to faulty planning by the Commission and by the manufacturer. We asked the question as to what recourse might be had from the manufacturer, because of the substantial part played in its installation.

After reviewing it with the Department—that is to say, the Unemployment Insurance Commission—very closely, my note indicates the importance of manufacturers being required to indicate in very precise terms the nature of their guarantees, and the wording of the guarantees they offer against failure of their equipment to meet specified performance.

When we come to this note I am going to invite the Committee to support this and to express the hope that this can be exacted from the manufacturers who are responsible, in such large part, for the installation of this complicated electronic data equipment.

It is a very technical field, as Members know. I think it would be of material help to all departments of the Government if the committee were to examine this case in some detail.

That would probably be the reason why Mr. Lalonde and his associates would have had difficulty in putting this bill at the doorstep of these firms.

Mr. TARDIF: I wonder, Mr. Chairman, if Mr. Lalonde can answer this: This equipment of IBM is normally on rental. If IBM suggested that you put in a thirty ton capacity cooling system and you put in a thirty ton capacity cooling system and the IBM equipment did not work, who then would be responsible?

Mr. LALONDE: Legally, I think, we would be, because we have taken their advice to put that amount in our specifications, and the contractor will hold us to our specifications.

Mr. WINCH: Ah, but you had taken their advice on that, and their advice was wrong. They had not included certain aspects and you were not given the information.

Mr. LALONDE: The only recourse that I think we would have is to say to them, "Well, alright, gentlemen the next time we require an electronic processing machine we will by-pass you". I think that is the only recourse we have.

Mr. TARDIF: I am not referring now to the six thousand dollars that was paid to the contractor, but I am referring to the rental that is being paid to IBM. They recommended to you by letter that 30 ton capacity was what was needed for that equipment, and you installed it exactly the way they said; then it does not work because there is not a sufficient cooling system. Do you then still pay the rental on that?

Mr. LALONDE: It works for their machine, and that is their only interest. The 30 is sufficient for the machine, but it does not take into account the rest of the staff.

Mr. WINCH: Who was responsible for the fact that it required 40 tons and you put in only 30 tons? Who is responsible for that?

Mr. LALONDE: I do not know.

Mr. WINCH: You must know, sir. Was it your department?

Mr. LALONDE: Partly; because we took advice which we should not have taken.

Mr. BIGG: Might I suggest that it is because this machine, on specification, was perfectly correctly advertised. Without people in the room and without

light and so forth it would work allright. You did not ask them what it would do if there were fifty people circulating around, with body heat up to unusual heights.

Mr. LALONDE: Perhaps I could look at this again when I can read the transcript and follow it up, Mr. Chairman.

Mr. WINCH: Will you follow it up on the basis of the question I have just asked? If you set the base at 30 tons and you say that they are completely in the clear, the Committee would like to know who is responsible for the fact that you should have had 10 tons more?

Mr. LALONDE: I do not think I will be able to pin-point any individual on that one.

Mr. WINCH: Somebody must have been responsible.

The CHAIRMAN: I think we must proceed.

Mr. Tardif, you asked a question concerning the I.B.M. installation in a letter that they supplied. Would you like to see that letter? I think I would like to see it, if it is available. Would that be permissible, Mr. Lalonde? That is the letter from I.B.M., which set out the 30 ton proposition?

Mr. TARDIF: That is a public document; it is not confidential.

The CHAIRMAN: It might help us when we come to the next section.

Mr. LALONDE: I will look in the file.

The CHAIRMAN: We will proceed while you are looking.

● (5.15 p.m.)

Mr. HENDERSON: Number 21; time allowed for the placing of boilers in operation in a heating plant in Montreal was unrealistic in this case and resulted in another contractor who was constructing an addition to the heating plant, being delayed and incurring additional costs of \$1.975 which were paid.

Number 22; this is a case where objections by a nearby property owner to the construction of a protection wall at St. Nicolas, P.Q., resulted in a temporary suspension of construction with the resulting additional cost of \$2,480 which had to be paid to the contractor.

Number 23; plans were underway in this case for the development of a townsite and the construction of various buildings at Frobisher in the Northwest Territories.

The first phase of development went ahead as planned but before the second phase was commenced the United States government decided to withdraw its operations at Frobisher.

Under the terms of the Canada-United States Agreement respecting SAC operations, the United States facilities at Frobisher, which included a number of buildings, became available to the government of Canada. As a consequence, the second phase of the development program was abandoned. Payments totalling \$194,982 had, in the meantime, been paid to the consultants for work done on this phase by them and this amount must, therefore, be considered as a non-productive payment.

Mr. TARDIF: Mr. Chairman, in this case this would be a non-productive payment that we were saving.

Mr. WINCH: I have only one question and I would like to get it clear. I think it is clear, but I want to be sure. Do I understand that the rather heavy loss here on the second phase is wholly and solely because after having arranged to go ahead on two phases, it was not until after you had started the first phase that a change in United States policy resulted in the dropping of the second phase?

Mr. LALONDE: That is correct.

Mr. WINCH: Therefore, there is no question on that. It was not until after you let that that a change in U.S. policy resulted in your having to drop the second phase?

Mr. LALONDE: That is right, Mr. Winch.

Mr. HENDERSON: Number 24; here a firm of architects was engaged to prepare plans and specifications and to supervise construction of a postal terminal at Edmonton. This plan was subsequently abandoned in favour of the construction of an addition to the existing terminal building and certain alterations to the existing building. The architects were paid \$18,000 for services rendered in preparing plans and specifications which were not used.

Mr. LALONDE: Mr. Chairman, I think this is a classical example of the difficulty in defining what a non-productive payment is.

The background of this case is simply this: We had a building with some years of service in Edmonton, and they needed to enlarge the postal terminal. We were not sure whether we should attempt to use the old building and tie a wing to it and connect the whole thing—and again you must remember the mechanical mail-handling processes—so we simply went to an architect and said, "Make a study of the two alternatives. Is it better to attempt to tie a new wing on to the old wing or to attempt to build a completely separate building in which all of the mechanical handling equipment will be included?" He produced a report saying: "I do not recommend that you try to tie the new building on to the old wing because the levels are not the same and it will not work." As a result of that we secured authority to build a new building, another architect was hired, who designed the new building and it is now being finished.

This is exactly the same thing as when we have a model study on another type of work; as, for instance, a harbour, in order to determine what is the best method of doing something. We received value for this.

Mr. TARDIF: That actually is the cost of a report.

Mr. LALONDE: That is right.

The CHAIRMAN: The only question here is: Could your own department or your own architects not have given you that advice without spending \$18 thousand?

Mr. LALONDE: No, I do not think that in Edmonton we were geared to do this job in addition to all of the other work.

The CHAIRMAN: What about your staff here in Ottawa? Could they not have designed this without going to an outside firm?

Mr. LALONDE: No, not without working on the ground.

Perhaps when we have our regional setup, and we have the kind of design units we want to have in the region, this is the sort of thing they will be able to do.

The CHAIRMAN: You have your own architects in the department and your own engineers in the department...

Mr. LALONDE: We have a minimum of them in each district.

The CHAIRMAN: Why could you not send them out there from here?

Mr. LALONDE: Not to do a long range job like this. I think it is cheaper to hire a consultant than to pad up your establishment; because your establishment is always built on a minimum number of people.

The CHAIRMAN: Well, all right. Will you go ahead with number 25, Mr. Henderson.

Mr. HENDERSON: In this case consultants were engaged to prepare plans for and supervise construction of a new postal station at Toronto. Two years later the department decided to defer further action indefinitely, and the consultants were paid \$1,704 for services rendered in connection with plans which were not used.

Number 26: an expropriation of certain properties in Hull, P.Q., in 1952, subsequently abandoned. The owner of a substantial portion of the area claimed damages and was successful in a court action to the extent of \$44,257, all but a very small amount of which must be regarded as a non-productive payment.

Mr. WINCH: I would like to ask a question on this. I do so because I am quite certain my memory is correct. I believe that upon two, if not three, occasions the Public Accounts Committee in the past were a bit concerned about the expropriation of property by the federal government, which was not used. I know it must be at least twice and I think maybe three times Mr. Henderson might remember—but we did discuss this problem. Here, again, we have the same problem.

It strikes me that something must be wrong when certain properties are expropriated—in this case it is in Hull—in 1952 because of planning decisions of the government. In 1954, two years later, it is decided that certain expropriations should be abandoned. Then, ten years later, in 1962, one of the properties is expropriated and then two years later it has been abandoned, and the owner takes Canada into the Exchequer Court et cetera, and we have to make a payment.

The CHAIRMAN: Maybe they have an explanation for this. Mr. Freeze, could you answer this one?

Mr. D. FREEZE (*Director, Property and Building Management Branch, Department of Public Works*): As a matter of fact the expropriation here was made in 1953, in anticipation of the completion of the Greber plan, on the advice of Mr. Greber at that time. It involved two things; we were looking for a site for a federal building which subsequently was built on a portion of the site and, also, the Greber aspect of it was for some road modifications in the vicinity of the site.

Subsequently the traffic studies indicated the road modifications would not be required, and the additional property was then not required.

Checking with the planning consultants of the day, the Federal District Commission, they advised us that their plans had, therefore, changed, and the expropriation was abandoned.

Mr. WINCH: That is my very point. This morning we had a long discussion about the agricultural building which, in the original planning was on the Greber recommendation. The plans were changed three times.

Here we have something different based originally on the Greber report. If I have the information correct from our friend a moment ago, it was not until two years after they had expropriated that they made the study on the traffic situation—Two years after they had accepted the Greber report with regards this Hull property, and expropriated, a study is made on the traffic situation, with the result that in 1954, outside of one section, the expropriation is no longer an expropriation; and then, ten years later, the taxpayers, through the government, are sued.

It is not the fact that we are sued ten years later. I am coming back, Mr. Chairman, to our discussion this morning on this. On the Greber report you expropriate, and two years later a study is made on the traffic situation and you decide that you should not proceed. This, Mr. Chairman, is just adding and adding to decisions being made without planning.

Mr. TARDIF: Excuse me, Mr. Chairman, but was that traffic study the official federal-provincial study that was made?

Mr. FREEZE: I cannot answer you, Mr. Tardif, I am sorry. It was not made by the Department of Public Works.

Mr. WINCH: But it was two years after the expropriation.

Mr. TARDIF: There was the study that was made for Ottawa and Hull and the surrounding district. Was this a result of that study? I know that I was on the City Council at that time, and that was decided quite fast.

Mr. FREEZE: We are talking about 1952, 1953 and 1954.

Mr. TARDIF: I think it was in 1954 that that study was started.

Mr. FREEZE: Yes, it was about that time.

Mr. WINCH: I do not want to hold up the proceedings. Can I ask whether the Department of Public Works does the actual expropriation?

Mr. FREEZE: We did at that time. We do not do it now.

Mr. WINCH: Not now?

Mr. FREEZE: No.

Mr. WINCH: Can I ask then why you expropriate and it is not until two years later that you have a traffic study?

Mr. FREEZE: Bear in mind, Mr. Winch, we expropriated on the advice of the planner and as an agent of the government.

Mr. WINCH: Who was the planner at that time?

Mr. FREEZE: The planner was Mr. Greber, at that time.

Mr. BIGG: Would it not have been more efficient to have expropriated and be done with it? It seems to me that this fellow would ever have got into this if we had not given him the land back. Perhaps if we had paid him a reasonable price for the land and been done with it, he would have been satisfied.

Mr. FREEZE: I think it is fair to say that there was another factor involved here, although I am a little hesitant to say how much it conditioned the thinking of the day, but there was a fire on this piece of property. A good deal of the buildings were destroyed by fire. The expropriation occurred shortly after that. It could very well be that it was considered better to expropriate at that time a piece of property which was, according to the plan of that day, clearly needed, when the property would be cheaper, than to do so later. I am speculating, because I was not here and our records do not completely show this.

Mr. TARDIF: If you expropriate a property, you have to have a reason.

Mr. FREEZE: Yes.

Mr. TARDIF: If the reason is nonexistent then your expropriation is not valid.

Mr. FREEZE: Excuse me, Mr. Tardif. The reason was that, in the opinion of the planner of the day, there was a need for road modifications which later planners decided were not necessary.

Mr. WINCH: Can I ask just one more question? You say you have changed the policy in your department now, but do you actually think that the operator of this hotel lost money in this location in Hull between 1952 and 1962 because officially he was being expropriated? Do you think he should be compensated?

Mr. FREEZE: He proved it in court. The compensation was awarded by the court.

The CHAIRMAN: I think, gentlemen, we will stop at this point. We will meet Tuesday morning at 11 o'clock and conclude with the Department of Public Works at that meeting.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

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LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 11

TUESDAY, MAY 31, 1966

Public Accounts, Volumes I, II and III (1964 and 1965)

Report of the Auditor General to the House of Commons (1964 and 1965)

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. D. A. Smith of the Auditor General's staff; Mr. L. Lalonde, Deputy Minister, Department of Public Works; Mr. G. B. Williams, Senior Assistant Deputy Minister; Mr. G. T. Jackson, Assistant Deputy Minister; Messrs. D. Freeze, G. Millar and L. Boyle of the Department of Public Works.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,	Mr. Leblanc (<i>Laurier</i>),	Mr. Tardif,
Mr. Ballard,	Mr. McLean (<i>Charlotte</i>),	Mr. Thomas (<i>Maison-</i>
Mr. Bigg,	Mr. Morison,	<i>neuve-Rosemont</i>),
Mr. Cameron	Mr. Muir (<i>Lisgar</i>),	Mr. Thomas (<i>Middlesex</i>
(<i>High Park</i>),	Mr. Noble,	<i>West</i>),
Mr. Dionne,	Mr. Racine,	Mr. Tremblay,
Mr. Flemming,	Mr. Schreyer,	Mr. Tucker,
Mr. Forbes,	Mr. Stafford,	Mr. Winch—(24).
Mr. Gendron,		

(Quorum 10)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, May 31, 1966
(14)

The Standing Committee on Public Accounts met this day at 11.13 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Baldwin, Ballard, Bigg, Dionne, Flemming, Gendron, Hales, Lefebvre, Muir (*Lisgar*), Schreyer, Tardif, Thomas (*Maison-neuve-Rosemont*), Tucker, Winch (14).

Also present: Mr. Nielsen.

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Messrs. Long, Smith, Dixon and Laroche of the Auditor General's staff; Mr. L. Lalonde, Deputy Minister of Public Works; Messrs. Williams, Jackson, Langford, Richard, Ings, G. Millar, Stothart, Ryan, Clarke, H. Millar, Boyle, Cameron, Dumsday and Sorokan of the Department of Public Works.

The Committee noted with favour that the Auditor General's office has been accepted by the Institute of Chartered Accountants of Ontario as a recognized agency for apprenticeship in accounting.

Members of the Committee were pleased also to hear of the honour bestowed upon Mr. A. B. Stokes, Audit Director, through his appointment to the Council of the Institute of Chartered Accountants of Ontario.

The Committee then proceeded with the examination of the balance of the 1964 Auditor General's Report, as it affects the Department of Public Works. The following items were covered:

- Paragraph 27—Cost of unused office space, Halifax, N.S.
- " 28—Cost of vacated Post Office space, North Edmonton, Alta.
- " 29—Cost of delay in approval of structural plans, Kentville, N.S.
- " 30—Cost of delay in demolition of building, St. John's, Nfld.
- " 31—Cost of terminating contract for construction of Post Office building, St. Isidore de Dorchester, Que.
- " 34—Architect's fee in respect of abandoned work, Montreal, Que.
- " 35—Cost of unused plans for hospital alterations, London, Ont.

Questioning of the Auditor General and Public Works representatives then moved to the 1965 Auditor General's Report. The items reviewed were:

- Paragraph 112—Construction of headquarters building, Department of National Health and Welfare.
- " 113—Cost of construction of the National Gallery.

Paragraph 114—Cost of revised and abandoned plans for buildings in Ottawa.

" 115—Cost of abandoned plans for headquarters building, Department of Transport.

" 116—Cost of modifying heating plant in new building, Toronto.

At 12.58 p.m., the Chairman adjourned the meeting to 3.30 p.m. this same day.

AFTERNOON SITTING

(15)

The Committee resumed at 3.45 p.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Ballard, Bigg, Gendron, Hales, Lefebvre, Noble, Winch.

In attendance: (Same as at morning sitting).

The questioning of the Auditor General and Public Works representatives resumed on the following items of the 1965 Auditor General's Report:

Paragraph 117—Relationship of site cost to building cost, Woodstock, Ont.

" 118—Cost of little-used railway spur line, Pointe-au-Père, Que.

" 119—Failure to provide for subsidy review.

" 120—Cost of activating water supply system, Churchill, Man.

" 121—Additional costs due to inaccurate specifications.

" 122—Continuing federal assistance to intra-provincial ferry services.

" 123—Contribution due for ice control structure, Montreal.

" 142—Non-productive payments:

(8) Additional cost due to delay in awarding contract, Banff-Jasper Highway.

(9) Additional costs due to construction delay, Pointe-au-Père, Que.

(10) Additional cost due to construction delay, Clarendville, Nfld.

(11) Cost of remedial work during construction period, Ottawa.

(12) Additional cost due to construction delay, Calgary, Alta.

(13) Cost resulting from discrepancy in specifications, Matapedia, Que.

(14) Additional cost due to construction delay, Ottawa.

(15) Court award to architect in respect of abandoned work, St. John's, Nfld.

The Deputy Minister of Public Works undertook to provide replies by letter to outstanding questions raised during the meetings of May 26 and this day.

At 5.30 p.m., the Chairman adjourned the meeting to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

EVIDENCE

TUESDAY, May 31, 1966.

● (11.02 a.m.)

The CHAIRMAN: Gentlemen, I see a quorum.

I have one or two announcements before we proceed. I hope that we will be able to finish this morning with the Department of Public Works' witnesses, but, if not, we will have to continue this afternoon at 3.30. On Thursday we will have the Department of National Revenue for Customs and Excise witnesses here, and you will receive in due time a list of the paragraphs we will be discussing with that department.

Mr. Henderson, our Auditor General, has an interesting announcement which he would like to make.

Mr. A. M. HENDERSON (*Auditor General*): Mr. Chairman, on various occasions, and as recently as April 5, when we were discussing my staff problems, I have referred to the recognition, two years ago, of my Office by the Institute of Chartered Accountants of Quebec and to the fact that the Institute of Chartered Accountants of Ontario has had such recognition under consideration for some time, because it involved a bylaw change by that Institute. I am happy to tell you that, at their annual meeting yesterday, the membership agreed to the necessary change in their bylaw. The Office of the Auditor General of Canada for the first time is now recognized as the office of a practising member, with the privilege of employing students on the staff as article clerks working toward their degree through a full apprenticeship period.

I need hardly tell you that this is very much welcome by my Office, and my officers and I shall be doing our very best to discharge the responsibility that has been placed upon us. I thought you would like to know this, because this matter has been outstanding for quite some time.

I also have another happy announcement to make arising out of that meeting, and that is that, for the first time, the members in their balloting elected one of the directors of my Office as a member of the council of the Institute of Chartered Accountants of Ontario. He is Mr. Arthur B. Stokes. A number of you know Mr. Stokes who has accompanied me to these meetings. This is also, I feel, a compliment to our Office.

The CHAIRMAN: Thank you, Mr. Henderson.

Mr. BALLARD: I would like to offer congratulations to Mr. Stokes on his election to the council of the Institute of Chartered Accountants of Ontario, and also to congratulate the Ontario Institute for recognizing the Auditor General as practising chartered accountant.

I might tell you that in Alberta, the Alberta provincial institute recognizes the provincial auditor as a practising accountant, and also allows the provincial auditor to engage the services of and to train, students within his office. This is a real step forward.

Mr. BALDWIN: I would like to add my congratulations to those of Mr. Ballard, and, as a postscript, to hope that some day the government will give as much recognition to our recommendations as the institute has to Mr. Henderson's staff!

The CHAIRMAN: Gentlemen, I am sure the Committee is very happy with this recognition that has been shown to both parties.

We will commence with item No. 27 on page 175—Cost of unused office space, Halifax, Nova Scotia.

27. COST OF UNUSED OFFICE SPACE, HALIFAX, N.S.—The Department of Public Works entered into a lease for a term of three years, effective October 1, 1961, to provide accommodation for the Department of Finance at Halifax. In December 1962 the premises were vacated as a result of a consolidation of services in another building. Although immediate steps were taken towards a cancellation of the lease, it was not terminated until September 30, 1963, when the lessor accepted \$4,592 in full and final settlement. This amount, together with the rent of \$7,271 paid for the period prior to that date during which the premises were unoccupied, resulted in a total payment of \$11,863 in respect of the unused accommodation.

● (11.15 a.m.)

Mr. HENDERSON: Mr. Chairman, we have, as you know, seven items of non-productive expenditure remaining in the 1964 report which you have, and at the last meeting, when we adjourned, I was giving you a brief rundown of the contents of each. With your permission, I will open up along the same lines with respect to item 27.

This as you see, has to do with office space in Halifax, which was under lease to the department. It was vacant for some time and the lease was eventually terminated at a cost of \$4,592. This amount, together with the rent paid of \$7,271 during the time the space was vacant, resulted in a total non-productive payment of \$11,863.

The CHAIRMAN: Mr. Lalonde, would you like to comment?

Mr. LUCIEN LALONDE (*Deputy Minister, Department of Public Works*): Mr. Freeze will supply that information.

Mr. D. A. FREEZE (*Director, Property and Management Branch, Department of Public Works*): The facts are as stated. The lease was arranged for space for the Department of Finance in 1961 on a three year lease. In July, 1962, the Department of Finance advised the department that they had taken the decision to consolidate their various offices in Halifax in one location. This resulted in consolidation in a federal government building and the vacating of number 3 artillery place which is the premise in question.

We were unsuccessful in arranging a sublet. We advertised; we took, I think, every step that was possible; but it was not until very close to the termination of the lease that we were successful in arranging a quit lease.

I think it is interesting to note that we brought this to the attention of the Department of Finance at the very beginning. They assured us at that time that there would be substantial savings in staff, and subsequently, after the lease had been terminated, by correspondence they indicated that they had, in

fact, saved some \$34,292 in salaries during the period that the premises were vacant.

Meanwhile, we had brought into more productive use some 2,500 square feet of space in the federal building which had a value, and we felt that all told there were savings accrued by this of probably \$45,000 more or less.

The net saving would therefore have been, something in the range of \$32,000, Mr. Chairman, although it is undeniable that there was a loss of \$11,863 with respect to the vacated premises.

Mr. TARDIF: Mr. Chairman, was that saving that is referred to by Mr. Freeze a saving caused by not employing additional staff, or by transferring staff that they already had to other departments?

Mr. FREEZE: I will have to look up the letter. The letter from the Comptroller of the Treasury reads, in part, as follows:

As a direct result of this integration (1) position T.O. grade 1 yearly salary \$7,140 becomes surplus to requirement and the incumbent was later transferred to another office.

(2) The enlarged regional office did absorb additional work without additional staff being supplied. While it is difficult to assess the exact number of additional staff which would have been required had these two treasury units not been integrated, it is estimated that at least three employees would have been involved at a yearly recurring cost of some \$12,000.

Mr. TARDIF: They actually saved money by not hiring people whom they would otherwise have hired?

Mr. FREEZE: That seems to be it.

Mr. TARDIF: It is probably a very satisfactory explanation, but it is not one that sits well with me.

The CHAIRMAN: Mr. Muir is next, then Mr. Flemming and Mr. Winch.

Mr. MUIR (*Lisgar*): Were these premises rented from a private individual or just another department of government?

Mr. FREEZE: They were rented from a private individual.

Mr. FLEMMING: Were these savings contingent on keeping this unused space? I can appreciate that there has been a saving, but I do not understand that it was contingent with keeping this unused space in another building? Was there any connection between the two? Would we not have had the saving even though steps had been taken to do something about the unused space?

Mr. FREEZE: I think that the position of the Comptroller of the Treasury is that the integration of his staffs from three locations into one allowed him to effect the staff savings.

Mr. WINCH: Is it possible for us to have any information on what the problem was which created the situation that it took two years to obtain a quit lease?

Mr. FREEZE: Mr. Chairman, I can only say that a tenant did not come forward, who was satisfactory—in fact, no tenant at all came forward. We did

advertise the space; we made it available; we were not trying to keep it out of use; we were trying to get it back into use. No one came forward—

Mr. WINCH: That is not quite my question, Mr. Chairman. You may have advertised it, but why did you take two years trying to get a tenant? When you first knew that you were not going to require this, and since you had signed a three year lease, why did you not arrange a quit lease for a period of two years?

Mr. FREEZE: The owner of the premises was not prepared to grant a quit lease until he saw the prospect of another tenant.

Mr. TARDIF: I am a little surprised, Mr. Chairman, that the person responsible for the integrating of this staff thought of it only after this lease had been signed.

In the report, where they talk of a saving of \$32,000, they do not enter the cost of the space that was used in putting the three departments under one roof, for instance. They left 2,500 feet here, therefore they must have taken 2,500 feet in another building. They should add the cost of the 2,500 feet that they rented in the new building. That does not make a saving of \$32,000 because they certainly did not get that for nothing.

I would like to know the cost of the 2,500 feet that were taken in a new building in place of the lease they already had?

Mr. FREEZE: Mr. Tardif, they were integrated, or brought together, in one of the federal buildings in Halifax.

One of the branches of the Department of Finance was in the Ralston building. This particular group was brought to the Ralston building and we were able to make space available to them by some compression of other tenants in the building. There was no additional space taken outside of the federal government resources.

Mr. TARDIF: All these employees that were there took some space in the Ralston building, did they not?

Mr. FREEZE: That is right.

Mr. TARDIF: There must be a value for the square footage that is used in the Ralston building—\$3 a foot, \$4 a foot, or how much? When you say there was a saving of \$32,000 you do not consider the cost of having this staff located in the Ralston building?

Mr. FREEZE: Mr. Chairman, I have the exact amount of space that was occupied in the Ralston building. I could provide you with the exact amount and the value that we hold that space at, or the cost of it to us, and give a complete analysis of that kind. Regrettably, I have not the information with me.

Mr. BALDWIN: What was the monthly rent, Mr. Freeze, in the building in respect of which there was a vacancy.

Mr. FREEZE: I do not have the monthly rate calculated. The annual rent was \$9,184.50 for 2,355 square feet of space at 3 Artillery Place in Halifax.

Mr. BALDWIN: That would be approximately \$2 per foot.

Mr. FREEZE: It is \$3.40 a foot.

Mr. BALDWIN: When was it that the people in Treasury first let you know that it was their intention to arrange this consolidation. Could you tell me that?

Mr. FREEZE: Yes; on July 11, 1962.

Mr. BALDWIN: On July 11, 1962; and at that time did you make known to them, as I assume you would, that there was still this unexpired portion of this lease.

Mr. FREEZE: Yes.

Mr. BALDWIN: They knew that. You advised them; but despite your advice they persisted in demanding that there be this integration. Of course, you being the rental agents—I suppose this is what you are, in effect—it was your job to give effect to their wishes.

Mr. FREEZE: Yes; I think that is a fair statement.

Mr. BALDWIN: In the face of the knowledge that there was this vacant space running at a \$9,000 per annum rent, the Treasury people said that they wanted this consolidation, and you were compelled to make the best you could out of it; is that correct?

Mr. FREEZE: Yes.

The CHAIRMAN: I have two observations to make here. In view of the fact that the Department of Public Works are the rental agents, did you put it in the hands of a real estate person to rent it for you?

Mr. FREEZE: I am sorry, Mr. Chairman; my memory says yes, but I would like to check our records and I do not have them with me.

The CHAIRMAN: The second question I have is: You gave us certain figures there about the savings. They do not appear in this item that the Auditor General puts before us. Perhaps I should direct this to the Auditor General—I do not know—but it would appear that the Committee has not got the full picture in the Auditor General's report under item 27. You say there was a saving, but we do not read it that way here.

Mr. HENDERSON: The reason you do not find any reference to that in my note, Mr. Chairman, is because I did not know of these circumstances. I was not furnished with a copy of the letter that went to the Department of Public Works from the Comptroller of the Treasury. If I had been, I should have been very happy to have looked into it and in that way to have been able to furnish you with more information.

Mr. FREEZE: Mr. Chairman, in support of what the Auditor General has said, the letter from the Comptroller of the Treasury, to which I referred, is dated April, 1965 and, we did not obtain this letter until after the fact. Although there were conversations prior to the fact we did not obtain the confirmation of it until after the fact.

Mr. HENDERSON: Even if I had been furnished with a copy of the letter in April, 1965, I would have been very happy, Mr. Chairman, to have investigated the facts and to have placed them in a better perspective had that proved possible following that examination.

Mr. TARDIF: That letter, Mr. Chairman, was an answer in 1965 to an inquiry that was made in 1962?

● (11.30 a.m.)

Mr. FREEZE: No; the item came to our attention through the Auditor General's observations in 1965, and we then went to the Department of Finance and asked them for confirmation of the savings that they had told us would occur, which they gave us.

Mr. WINCH: This is most unusual, to get a letter in 1965—

The CHAIRMAN: Just a moment. Mr. Tardif wants to follow up—

Mr. TARDIF: I wish to ask a supplementary question, Mr. Chairman. In the report you say that this happened in 1961 in the original lease, and then they decided to consolidate their departments in 1962, and no inquiry was made about the saving, or the conditions, until 1965, or do you mean that no reply was available to you until 1965?

Mr. FREEZE: I am sorry, Mr. Chairman; I thought I had indicated earlier that we had made a verbal inquiry of the Department of Finance at that time, pointing out to them that there would be a loss unless we were able to sublet the premises. But we had not correspondence with them at that time.

Mr. TARDIF: This was all done verbally?

Mr. FREEZE: In 1962, yes.

The CHAIRMAN: It was done verbally? Would it not be customary to have a letter on a thing like this.

Mr. FREEZE: I can assure you, Mr. Chairman, it will be customary, and it has been for the last couple of years, but it was not at that time. I cannot explain this.

Mr. BALDWIN: When would your report for the year ending March 31, 1964 come out and be published?

Mr. HENDERSON: It would be completed by December 31, 1964, so that this paragraph would have been shown to, and discussed with, the officials of the Department of Public Works in October-November, 1964.

Mr. BALDWIN: Going a step beyond that, Mr. Henderson, it would actually be published, or the information would come to the attention of the Department of Finance, sometime in January.

Mr. HENDERSON: In January, 1965; and they doubtless picked it up in reading my report and decided to write a letter to Mr. Freeze. I am only sorry they did not give me a copy.

Mr. BALDWIN: You finished the thought that I had there. It was only after this report was published that the Department of Finance decided that it had better write a letter in connection with it?

Mr. HENDERSON: That would seem to be the assumption, Mr. Baldwin.

Mr. BIGG: I think my question has been pretty well answered. I was trying to stop the leak again.

It appears that this matter has been taken into account now. I did not want a recurrence of this sort of thing. There should be better liaison between the different departments and they should not rely on verbal conversations on the phone. Perhaps a memo on the rental file might have done a lot more good a lot sooner.

Mr. HENDERSON: Indeed.

The CHAIRMAN: Are there any further comments? I think it has been discussed pretty thoroughly.

Mr. TARDIF: This has nothing to do with this, but I wondered, Mr. Chairman, whether, in the future, if a department is eventually going to consolidate its employees under one roof, they should not plan ahead of time so that a thing like this would not reoccur?

There was a very short period of the lease when the building was occupied by the department, and then they decided they did not want it any longer and they were going to consolidate under one roof. Where they say that it is a saving, actually if you go into a federal building it is no saving per square foot, because the taxpayers of Canada pay for that anyhow. It is probably more costly, as a matter of fact.

The CHAIRMAN: You are going to advise the Committee whether or not you put it in the hands of a real estate agent?

Mr. FREEZE: Mr. Chairman, you may recall that I said it was undeniable that there had been a loss in rent.

Mr. TARDIF: There is that, Mr. Chairman, and the cost per foot in the Ralston building, and how many square feet were occupied by that section of the department that moved from this location to the Ralston building.

The CHAIRMAN: We will now move to No. 28.

28. Cost of vacated post office space, North Edmonton, Alta.—The Department of Public Works leased space in a building at North Edmonton for the use of the Post Office Department for a ten-year term commencing June 1, 1954 at the rate of \$2,200 per annum. The premises were vacated on January 15, 1962. Because the amount requested by the lessor to terminate the lease at the time would have represented little saving over continuing to pay rent to the completion of the term, the Department elected to attempt to sub-let the space. Its efforts were unsuccessful until February 1, 1964, when an offer of \$50 per month was received and accepted. Payment of rent to January 31, 1964 and a quit lease payment of \$467 for the final four months of the term resulted in a total of \$4,959 being paid for the period during which the space was not occupied by the Crown.

Mr. HENDERSON: No. 28 shows how space in Edmonton, leased for a term of 10 years, was vacated with about 2 years still to go on the lease. The property was sublet for a short period at considerably less than half the rent payable under the lease, and subsequently there was a payment of \$467 to the owner for termination of the lease before expiry date. This brought the total non-productive payment to \$4,959.

Mr. TARDIF: Mr. Chairman, may I ask how much saving was effected by this move?

Mr. FREEZE: The Post Office Department informed us that they had savings of approximately \$2,316. I am sorry, but I do not have that information.

Mr. WINCH: Mr. Chairman, in view of the fact that for 2½ years the department sublet at half the rental for which they had signed a lease, does this

not indicate that the department was paying twice the rental which was required? How, otherwise, do you explain the fact that the only way that you can get a tenant is to sublet at half the price that you signed to pay yourself? In other words, were we not paying twice what we should have been paying on rental? I think that is a logical question.

Mr. FREEZE: Yes. I think the question is a very good one. Certainly at the time that we tried to sublet, which was some 8 years after the original lease was signed, it was the situation.

Mr. WINCH: Well, may I just point out, sir, in order to elaborate a little, that, if my knowledge of real estate is correct, a rental rate $8\frac{1}{2}$ years after a lease is signed is very much higher than it was $8\frac{1}{2}$ years before. Therefore $8\frac{1}{2}$ years later, when rentals are up two and three times higher, how is it that you have to sublet at half the price? It just does not make sense to me.

Mr. FREEZE: The situation that was occurring in Edmonton at that time—I do not know if you are familiar with this—but the location of the postal station on Fort Road and 63rd Street is about $2\frac{1}{2}$ miles northwest of the location where the post office required their new postal station “C”. During the period 1954 to 1960, there was very rapid development in Edmonton, as there was in most cities across the country, and a great deal of that development occurred about $2\frac{1}{2}$ miles closer to the centre of the city. It left the area just around old North Edmonton a rather depressed section of the city during that period. It completely changed its complexion, Mr. Chairman.

The CHAIRMAN: Could I ask if you rented this through a real estate agent or, did you rent it yourself?

Mr. FREEZE: We took both actions. We advertised in the newspapers and we displayed “for rent” signs. There were other vacant stores right in the vicinity that had also moved away, and it was as a result of our sign in the window that we finally got a tenant.

The CHAIRMAN: You rented it yourself.

Mr. TARDIF: Before we drop that, Mr. Chairman, I wonder if the Auditor General, in the process of checking these things, found one place where we cancelled a lease and we ended up by losing money? In all the previous ones we have made a saving. I wonder if he found one where we actually lost money.

Mr. HENDERSON: I would like to ask Mr. Freeze if he received a letter in this case from the Post Office Department, setting out the savings.

Mr. FREEZE: Yes, we did. We brought to the attention of the Post Office Department that there would be some loss of use of the premises for which we would be paying. We were concerned with the fact that it would be difficult to rent. We asked them to consider whether they might not operate a split operation; that is, have a portion of their postal station in the new location and a portion in the other. They wrote back in February, 1961, and if I may read from their letter they said, in part:

I must point out that a split operation would be undesirable from a postal service standpoint and that it would be entirely unsatisfactory if it involves the use of the North Edmonton post office building. A split operation would offer the following disadvantages (1) Increased costs would result from the transportation of mail the additional distance to

North Edmonton post office and this would amount to \$1,158.30 per annum. The additional transportation time required would necessitate an earlier closing of the mails—

This is quite a long paragraph and I can read it all, Mr. Chairman, but it finally devolves that there would be some delay in delivery of the mail.

The third item is:

There would be considerable difficulty in maintaining adequate supervision of the split operation and this would result in the need for additional supervisory staff which would be a costly item; and (4) the North Edmonton post office is located in the northern portion of the letter carrier delivery area—

This is confirmation to some extent of my previous statement that the development of the city in that area took place in the south end and west of this.

Most of the carriers stationed there would be required to travel considerably further to their walks and this would result in a need to change the layout of some walks with a possibility of additional cost—

The CHAIRMAN: Is there anything further? No. 29 is next.

29. COST OF DELAY IN APPROVAL OF STRUCTURAL PLANS, KENTVILLE, N.S.
—In September, 1961, the Department of Public Works awarded a contract for the construction of a federal building at Kentville which was accepted by the Department in October 1962. During the year under review the structural steel subcontractor was paid \$8,498 as compensation for a construction delay caused by late approval of shop drawings relating to an element of the steel work. Although the Department felt that the situation had stemmed from an error in judgment on the part of the consultant architect, no assessment was made against him because of his otherwise satisfactory performance.

Mr. HENDERSON: This deals with the payment of \$8,498 made to a structural steel subcontractor in connection with the construction of a federal building at Kentville, Nova Scotia. This was in compensation for construction delay caused by late approval of shop drawings.

As you will see, although the department felt the situation had stemmed from an error in judgment by the consulting architect, no attempt was made to recover any portion of this payment from him.

Mr. TARDIF: Mr. Chairman, this is not a question. I am rather surprised—and this often happens—that an architect who is paid a recognized tariff fee makes an error in judgment that costs the taxpayers of Canada a considerable amount of money in some cases, and he gets paid and no action is taken against him because the rest of his performance was satisfactory.

The CHAIRMAN: Is there no clause written into agreements with architects, concerning these errors?

Mr. G. B. WILLIAMS (*Senior Assistant Deputy Minister, Department of Public Works*): There is not a clause of recovery in that context. You have a professional contract with an architect, or a engineer, which requires him to advise you and prepare plans and specifications to the best of his ability.

In this particular case, the architect was not negligent; if anything, he was a little over-enthusiastic, because he did his best to avoid what he felt would be a problem in the construction of the building by co-ordinating the stone work details and the steel details. This was his job, but in so doing he kept revising the steel details and sending them back to the subcontractor to try and match up with stone details he was getting at the same time.

He was not negligent in our view—which he does not agree with, of course—he would have been better to have gone ahead and approved the steel details so there would have been no delay in the shipping and erection and the stone man would have had to make his fit, which would have been a problem of the general contractor. The architect was not negligent. He did the best he could. He lived up to the performance of his contract. He designed a very good building which has been accepted by the clients.

The total amount of extras involved in the building were about 1½ per cent which is a reasonable figure and there was no basis on which the department could go back for a recovery.

Mr. TARDIF: You had to go by something that was not according to the sets of sketches.

Mr. WILLIAMS: The consultant did.

Mr. TARDIF: Perhaps I did not read this properly.

Mr. WILLIAMS: The contractor got the payment, sir.

Mr. TARDIF: Yes, but it was the fault of the consultant, who sent the drawings back, and yet no assessment was made against him because the rest of his job was very satisfactory.

Mr. WILLIAMS: Yes; there was no basis on which we could recover from the consultant. He had not in any way been negligent.

Mr. TARDIF: Mr. Chairman, I know of a firm of consultants who made an error in a sewage treatment plant that cost \$100,000 and they paid for it. That was not done by the federal government. It was done by another agency.

The CHAIRMAN: Your point, Mr. Tardif, is that the consulting architect should have paid the \$8,498?

Mr. TARDIF: If he was responsible for the mistake, yes, I would say so.

Mr. BIGG: I am not satisfied from what I read that the architect was responsible for any mistake. Perhaps it was inexperience on the part of the contractor in co-ordinating the architect's plans with the stone on the steel work, and I do not think that the individual draftsman or architect is necessarily at fault.

As someone said he was probably over-anxious to make a good job of the building and held up the work rather than have a bad job done. No one could construe this as negligence.

The CHAIRMAN: I think the department and you agree on that point.

Mr. MUIR (*Lisgar*): I was just wondering if the consulting architect was not responsible for the design of the steel and the stone so they would get together. What was his job?

Mr. WILLIAMS: The consulting architect is responsible for the design. The detailing that is done has to be provided, in many cases, by the sub-contractor, because the detailing will be dependent on the type of windows he is supplying, all within the specifications, but they are not all identical; and when the contractor receives from his subs their proposals for such things as windows, stone finish and this sort of thing, they provide the details to match the structural design and the general design provided by the consultant. He has to approve these as being compatible and satisfactory with his design.

In this particular case, the submissions from the steel subcontractor were, in retrospect, satisfactory and were provided. He made his adjustments in them once, but, having done so, he should have given approval to go ahead. What the architect did was to make the adjustment, and in the meantime he got stone details, and he tried to bring the two together and sent them back to the steel subcontractor for further revisions. This is what constituted the delay.

Mr. MUIR (*Lisgar*): Was this a small building?

Mr. WILLIAMS: It was worth about \$370,000. It was a public building.

Mr. TARDIF: This is the first time that I have heard that an architect, or a consultant, gets from the subcontractor the detail of the material that is going to be used on the building. I have never heard of that before.

As far as I know—and I probably do not have the same amount of experience as you have had—the consultant, or the architect, also stipulates in his specification what type of materials are going to be used. If you are right in what you say, I do not know how a subcontractor can calculate on a job, because he has to figure on what type of windows are going to be used, what type of stone is going to be used on the outside, how much steel and what weight of steel and what strength of steel. This is the responsibility of the consultant as far as I know, and should be part of the plans or specifications. He certainly never, that I know of, waits for the subcontractor to tell him what he is going to use.

Mr. WILLIAMS: Mr. Chairman, in general terms Mr. Tardif is quite right. The only thing is that in our specifications, we do not use a trade name and say, "You will use this type of window." We use an open performance specification with a description. That is to provide competition in the subtrades who are supplying these things.

The subtrades will supply samples of their windows and they will quote on the various manufactured windows which will meet the specifications in so far as performance is concerned. But the details of those windows—I am using windows as an example—are not all the same. One has a little different width of framing, they have a little different make-up, all of which involves details in the steel—in this particular case, the steel supports for the stone work—and it is the responsibility of the subcontractor, when he is quoting and supplying his windows, to provide to the consultant the detailing of his window compatible with the detailing of the steel; and the consultant must approve these to see that they are correct.

It is even more difficult in the case of supplying equipment in these buildings, because we will quote for a certain type of motor, or a certain type of heating plant, for production and capacity and efficiency; but the various

manufacturers are by no means standard. The connections are in different places, the sizes are a little different, and when the subcontractor quotes on these he provides the detailed information which will make them fit the plans and specifications provided by the consultant.

Mr. TARDIF: If that is the case, Mr. Chairman, I think there should be eliminated from the clause the fact that the department felt that the situation had stemmed from an error in judgment. If you are right—and I do not say that you are not—then there has been no error in judgment so far as I am concerned.

The CHAIRMAN: This is before the Committee and there is evidence on both sides. The Auditor General's department states in this section that an error in judgment did occur on the part of the consulting architect and Mr. Williams and his department have given us some evidence that it does not.

The Committee are now free to ask questions.

While you are thinking it over, I would just like to ask if this consulting architect had been hired before by the Department of Public Works. Had you had previous experience with his work? Secondly, have you an area architect, or area engineer, in the Maritime region that could have helped co-ordinate this operation?

Mr. WILLIAMS: We have an area architect, and the consultant was reporting to him on the progress of the building; but our area architect was not immediately aware of this problem arising between the steel subcontractor and the consultant. He was dealing with the prime contractor.

Mr. TARDIF: Just to keep the record straight, I said that if Mr. Williams is right there has been no error in judgment, but, actually, I think there has been an error in judgment.

Mr. HENDERSON: The statement made in my report, Mr. Tardif, is the department's, not mine. The text of this was shown to them and it is the department, I say, which felt that the situation had stemmed from an error in judgment.

The CHAIRMAN: Before we have another question, Mr. Williams, you did not answer the one I asked you: Had you hired him before?

Mr. WILLIAMS: I think we have, sir. I am not positive. I will look that up if you wish and will advise you later.

The CHAIRMAN: Have you given him jobs since? You can look that up at the same time.

Mr. WILLIAMS: I will advise the Committee in both cases.

The CHAIRMAN: You made one statement that your area architect was not aware of this situation. That would appear to me to be a very grave error.

Mr. WILLIAMS: I would agree, again in retrospect, that he perhaps should have notified the delay. Mind you, there were many delays on the job and the prime contractor was behind schedule and actually we assessed the prime contractor a matter of \$2,300 for delays on his part. I think probably our area architect was pushing in other areas and did not realize that this was going on between the steel subcontractor and the consultant.

The CHAIRMAN: Where is that area architect today. Is he in that same position?

Mr. WILLIAMS: I could not say, sir. I would have to—

The CHAIRMAN: Mr. Lalonde, could you say.

Mr. LALONDE: I do not know, Mr. Chairman. I do not know who was the area architect at the time.

Mr. WILLIAMS: I would doubt very much that he would still be there. Whether he is still with the department or not, I could not say.

Mr. TARDIF: He is probably the supervisor of four or five other areas.

The CHAIRMAN: Mr. Bigg, you are next.

Mr. BIGG: I think the timing is very important here, and I would like to know when the architect was called in to revise the plans. If he was called in after they found out that the subcontractor was fitting windows which would not suit the original plans and the architect thought he could save the department and everyone money and time by re-drafting certain specifications in the window openings or something like that, then I insist that he was not negligent but perhaps was going beyond the call of duty. He could not be blamed if, in the original terms of reference, he was asked to supply a building and leave the windows blank for a subcontractor to fit in. I do not see how he could foresee which subcontractor would be supplying metal windows or lift windows or venting windows. I use that as an example. What was it, Mr. Williams?

Mr. WILLIAMS: It was prior to construction that he was doing this examination and re-examination. The situation was that the steel subcontractor had acquired the materials and fabricated all the main steel for the building and was ready to ship, but he did not want to ship, or put in an erection crew, until he had fabricated the spandrel beams to support, in this particular case, the stone work over the windows. This happened before construction; but it delayed the steel subcontractor in getting the steel to the site and doing the erection.

Mr. BIGG: How much more would it have cost if they had gone ahead and foolishly put up the steel and then had to refabricate?

Mr. WILLIAMS: This is where the department felt, along with Mr. Tardif, that there was the possibility of an error in judgment, because we felt that had he made his initial revision of the steel subcontractor's detailing, to what he thought was satisfactory and approved at that stage and allowed the man to ship, the subcontractor would have gone to the site and would have erected all of the main steel; and in that period, while he was erecting the main part of the steel work up and then he would only be working on details of the stone work and the detail of the steel work. If it was not done, at least he would have the steel work up and then he could only be working on details of the stone work, and the delay possibly would not have occurred. This is where the department felt that while he had not been negligent—in fact he had been over zealous—it was an error of judgment.

The CHAIRMAN: Next is No. 30.

30. COST OF DELAY IN DEMOLITION OF BUILDING, ST. JOHN'S, NFLD.—In September 1959 the Department of Public Works awarded a contract in the amount of \$6,990—subsequently increased to \$7,743—for the demolition of a building in the St. John's harbour area. The site was required for

the construction of a marine agency depot for the Department of Transport.

Although demolition was required by late November 1959, it was not completed until the following October due to a delay for which the contractor was not responsible. As the delay resulted in the cancellation of a sale of salvaged material which he had negotiated prior to tendering and led to a substantial loss on his undertaking, the contractor sought redress. In May 1963 he was paid an additional amount of \$12,000 in settlement of approximately 50% of his claim.

Prior to demolition the building was being used by the Province of Newfoundland, on a "care and maintenance" basis, as a vocational training school. Although the Province was notified in January 1959 that vacant possession would be required by the following July, it continued to use the premises until late April 1960. The Province was advised by the Department of Public Works in November 1959 that financial responsibility for the delay was regarded as a provincial matter, but no further action was taken in this regard.

Mr. HENDERSON: This refers to a non-productive payment of \$12,000 arising out of failure of the Province of Newfoundland to vacate a federal building at St. John's, which it was occupying on a care and maintenance basis, when requested to do so. As a result, the contractor carrying out the demolition was paid an additional \$12,000.

You will notice that the province was advised that it was regarded as responsible for the cost of this delay, but no further action was taken to recover any part of it.

Mr. BALDWIN: I see in that, Mr. Chairman, that the last paragraph states that the reason for the delay was that the provincial government of Newfoundland refused to give possession as had been required, and consequently this led to the delay and led to the inability of the contractor to secure possession of the material so that he could make his sale.

Would this be a fairly accurate assessment, Mr. Lalonde.

Mr. LALONDE: Mr. Chairman, that is a correct statement.

Mr. BALDWIN: Mr. Chairman, is it not a fact—and Mr. Henderson may correct me—that we had some difficulty with Mr. Smallwood not so many years ago about two houses that his government continued to occupy? Was there not some problem there in public accounts?

Mr. HENDERSON: Yes; I think in the 1964 Committee meetings there was a case where the provincial officers were occupying a house which was considered to be the property of the federal government and which was required by the federal officers.

Mr. BALDWIN: I was just wondering, in view of these two claims, whether the government might be willing to consider some payment out of the \$8 million a year.

The CHAIRMAN: That is a thought, Mr. Baldwin.

● (11.59 a.m.)

Mr. BIGG: Surely there is something incongruous about the crown suing the crown. I can see nothing but gain for lawyers in this business.

There must be a point where we can assume that governments are acting bona fide in all cases. I mean surely there is no recovery on the part of—

The CHAIRMAN: I think Mr. Baldwin gave you the answer. You deduct the amount off the \$8 million. That simplifies it.

Mr. FLEMMING: After all, there are grants paid every month—it is not necessarily \$6 or \$8 million; there are grants paid every month. There is no trouble getting the money if the finance department wants to get it.

Mr. HENDERSON: That is right.

Mr. FLEMMING: There is no trouble to get it; you just take it off.

The CHAIRMAN: Well, whose responsibility would it be to—

Mr. FLEMING: Well, that is a good question; perhaps we could ask the Auditor General.

Mr. HENDERSON: Well, I think in this case there was a responsibility attaching to the Department of Public Works to follow it up. Perhaps they might give the reason why no further action was taken, or what efforts they did, in fact, take.

Mr. G. T. JACKSON (*Assistant Deputy Minister, Department of Public Works*): I think in fairness to the province, Mr. Chairman, it must be said that they were trying to find other accommodation for the 600 people who were attending the school. They were trying to negotiate for space in what is known as Buckmaster's Field. It took longer to get the accommodation than they expected and this is the reason for the delay.

I have no explanation, Mr. Chairman, why we took no action to endeavour to recover the \$12,000 that we paid out.

Mr. WINCH: Why should the federal treasury have to pay because of a problem experienced by a province? Is that not the responsibility of the province and not the federal government?

The CHAIRMAN: This brings up a very important matter, I would say I think our Committee should make a recommendation that when there are charges such as these the responsibility should be on the department concerned to notify Treasury that this money is owing by a province and that Treasury should follow it up and deduct it from the grants that are paid to these provinces.

If you are running a business this is the way you do it. Apparently it is nobody's business around here who collects this money.

Mr. BIGG: Mr. Chairman, we are not running a business, we are running a family. I cannot add my recommendation to that at all. I think there should be a saw-off where the crown is acting bona fide.

The CHAIRMAN: We will discuss it when we are drawing up our recommendation.

I have just one question before we leave this: Why did you ask for a tender to demolish this building before the building was empty?

Mr. JACKSON: Mr. Chairman, we asked the province in January of 1959 to vacate it by July. They were unable to do this, but in discussion with

them—incidentally this was in writing—they said they expected to move out in September. On the basis of their advising us that they hoped to move out in September we called tenders and the low bidder, whose price was \$6,990 against our estimate of \$35,000, had a market and he bid at that price believing that he would have access to the building in October.

The CHAIRMAN: Have you experienced problems like this before, where you have it in writing that they will vacate and they do not vacate and you get caught like this? Would it not be better to wait for the actual vacating in demolition work?

Mr. JACKSON: This is a rather unusual case. I do not think this happens very often.

Another factor here was that we really wanted the building down because we were in the process of carrying out major reconstruction in St. John's harbour, and the contractor who was doing some other building for us in the area wanted the building down and out of the way. We were trying to save time on it.

The CHAIRMAN: All right. No 31?

Mr. MUIR (*Lisgar*): It looks to me, in No. 31, as though the regional officers of the post office department in the province decided that this village needed a new post office. After the sale of the building, the land acquired and the contract let the municipal council decided, because someone else who may have been influential in the district was getting rent from that building, that they did not want the post office to build at that particular time. This is the only explanation that I can find for this.

It cost \$9,000 and the department still holds the site which they will probably put a post office on when the other contract is no longer useful to the council. It would seem to me that this is a terrific waste of money.

The CHAIRMAN: We might have the department explain something here and then take Mr. Tardif's question. Is there any explanation?

Mr. LALONDE: Mr. Chairman, there is not much explaining that I can do. This is the kind of situation which we run into sometimes when we are trying to determine whether a post office should be built in a small place, or whether it should not be built; and also where it should be built within that small municipality. There are always conflicting interests. We receive conflicting directives; decisions are changed from time to time—

Mr. WINCH: Does a directive have any bearing in a change of direction?

Mr. LALONDE: I do not know, Mr. Winch. All I know is that we are told to do this, and then we are told to cancel that; and then we are told to put it on again and then to cancel it again.

Mr. TARDIF: Mr. Chairman, this is actually a question that should be asked of the post office department. If the post office department decides that a post office is necessary in this location they must have made reasonable and serious studies before this decision was reached. How does it happen that a local council decides that there is going to be no post office? I would imagine that the need must have been arrived at by the post office department. How does it happen that the local council decides that they do not want a post office?

The CHAIRMAN: I guess public works can hardly answer that question.

Mr. TARDIF: I actually think, Mr. Chairman, that the post office department should answer this particular question.

Mr. FLEMMING: My question, Mr. Chairman, is: Who made the decision not to proceed with the original plan to build the building? From whom did the deputy minister get his direction not to proceed after the decision had been made to proceed, the land purchased, and all this? Is it a ministerial decision or where did it come from?

Mr. LALONDE: It is a ministerial decision.

The CHAIRMAN: Mr. Lalonde, would you like to give us, step by step, the date on which you were asked to build a post office and the next date you were told not to, and so on.

Mr. LALONDE: I will, Mr. Chairman, if that is your wish.

In June, 1961, the member of parliament for this constituency requested the Minister to provide a new post office at this location.

The then Minister of Public Works replied that the space was satisfactory for the time being, and that the lease did not expire until November, 1962. The Minister indicated that he would consider erecting a new building at the end of 1962.

The department was requested to look for a site, and in September 1962 the district manager submitted a report on a site which met with the approval of the post office authorities and the municipal authorities.

This site was acquired in October 1962 at a cost of \$5,000.

In November, 1962—this project was to be part of the winter works program for that year—local public tenders were invited with a closing date of December 5, 1962.

Before the tenders had closed a petition was directed to the Minister of Public Works, requesting that the post office remain in its present premises. The Minister then advised the municipality that in view of the petition the building would not be proceeded with and that in the meantime we would continue to lease.

Mr. FLEMMING: Excuse me, what was the date of that direction? Was that by letter?

Mr. LALONDE: That was by a letter of November 28.

In the meantime the department had received six quotations on the public tender that I have just mentioned. On December 19, 1962, the low tenderer was informed that no action would be taken on the tenders that had been received.

In February, 1963, representations appear to have been made to the Minister of Public Works—because this is all part of ministerial correspondence which does not stay with us—to request that the post office be built after all. The Minister decided to accept this request, and, since the low bid was very favourable—the one that had been received in December—instructed the department to award the contract to that low bidder at the same price. He immediately commenced work—no, not immediately. He started his excavation in April although he had the contract in his pocket. I think he was waiting for the snow to get off the ground.

In April, after the contractor had started, a special meeting of the council was called by the mayor, and they asked that the post office building be stopped and that we go back to leasing the post office premises and this was accepted.

The CHAIRMAN: Now, just a minute, gentlemen; there will be a lot of questions here.

Mr. TARDIF: Did anyone ascertain, in that particular case, whether the mayor owned the building that was leased to the post office?

Mr. WINCH: I think we should know who owned those premises.

Mr. LALONDE: All right. It was not the mayor who owned the building; it was the post mistress who was leasing to the Post Office Department.

Mr. TARDIF: She was not the mayor's wife?

Mr. LALONDE: No.

Mr. MUIR (*Lisgar*): What is the population of this village? The reason I am asking that is that I think for \$5,000 you could have bought the whole works.

Mr. LALONDE: The cost of the building would have been \$14,690.

Mr. MUIR (*Lisgar*): That was the low bid. That is exclusive of the land, though?

Mr. LALONDE: Exclusive of the land.

Mr. MUIR (*Lisgar*): What I am trying to get at is: Why did they have to pay \$5,000 for a site in a small village when you could probably buy the whole town for the same price.

Mr. TARDIF: The mayor will have another petition if you repeat that.

The CHAIRMAN: Just a moment, gentlemen.

Mr. MUIR (*Lisgar*): For a small town it seems to be an excessive price to pay for a site.

The CHAIRMAN: Mr. Freeze is looking over the property here—

Mr. LALONDE: Although I have not got this in my notes it is quite probable that this was a site located on the main street of the municipality, and when you get a choice site this is about the price range you have to pay. It is 80 feet by 100 feet.

Mr. MUIR (*Lisgar*): For a \$14,000 building?

The relationship between the cost of the land and the building seems rather extraordinary.

Mr. LALONDE: Oh, I do not think so; not for that kind of—

Mr. MUIR (*Lisgar*): Five thousand dollars to \$14,000?

Mr. TARDIF: About a third in difference.

The CHAIRMAN: Have you any further questions? It is quite an involved situation and it brings up the fact that the Department of Public Works, as agents, find themselves in some pretty difficult situations from time to time.

Mr. WINCH: The important point here is: Is it possible for us to find out how political or other pressure can be put on a government to stop construction

once the decision to construct has been made both by the post office department and the Department of Public Works? It is proceeding, and then pressure is brought to bear. Where does the pressure come from?

I think this is the kind of thing that we should investigate, to find out just what that pressure is and why the Department of Public Works and the post office have to give way to it once they have a contract.

The CHAIRMAN: I think the answer is that the member of parliament approached the Minister at the time, and I suppose this is where some of the pressure came from. I am not saying that it is proper.

Mr. WINCH: The information that we received, sir, is that the member of parliament was the one who first approached the Minister to have a new post office building constructed.

Mr. BIGG: You know, people have been known to change their minds.

The CHAIRMAN: We have found that out right along, Mr. Bigg.

Mr. WINCH: Why should a taxpayer have to pay because of the whims of politics or outside pressure?

Mr. FLEMMING: Do they not do that in Vancouver East?

Mr. WINCH: Thank heavens, I have not got any federal buildings!

The CHAIRMAN: I think the crux of this matter is that in September 1962 the site was approved by the post office and the municipality. Is that right, Mr. Lalonde? Is that what you said? In September of 1962 the site was approved by the post office and the municipality.

Mr. LALONDE: That is correct.

Mr. TARDIF: Mr. Chairman, I do not think that is the problem anyhow, because if you buy a site on the main street of any village the price is not exorbitant. The problem is who decides that there is going to be a post office after proper study, and then who decides that the council has the power to say there shall be no post office and they continue renting a building where they are already.

Either the post office was not needed when the study was originally made, or, if it was needed, then the council certainly had no authority to send a petition that would affect the decision that was originally taken.

Mr. LALONDE: I must say, Mr. Chairman, that this is part of the context in which I see the operation of the Department of Public Works.

When I came to this department at the end of 1963 it was the custom for all questions about all kinds of buildings, including post offices, to be asked of the Minister of Public Works. I suggested to Mr. Deschatelets that it was not his function to reply to questions about post offices; that the decisions should be made by the Postmaster General.

Mr. TARDIF: That is why I said, Mr. Chairman, that this question does not actually apply to the Department of Public Works. It should be asked of the Post Office department.

Mr. LALONDE: At the time the Minister of Public Works was involved—it was the policy—in making decision about post offices.

The CHAIRMAN: All right. Mr. Baldwin.

Mr. BALDWIN: I just wanted to emphasize that point—and perhaps we can deal with it later.—It does not seem that the Department of Public Works has enough sins of its own to answer for from time to time, without having to be dragged here—because it is the only tag we have—to answer for the sins of other departments and other people, where they have had to bear the responsibility.

I think somehow, perhaps through this Committee and the suggestion of Mr. Lalonde and his department, some procedure might be worked out whereby it is quite apparent, when some of these decisions are made, exactly who makes them, and that the responsibility and the initiation of the decisions come from some place outside the Department of Public Works. We have seen too much of this.

The CHAIRMAN: A very good suggestion. Mr. Henderson, No. 32?

Mr. HENDERSON: Mr. Chairman, 34 and 35 remain, do they not?

The CHAIRMAN: Oh, no; that is not public works; I am sorry.

Mr. HENDERSON: Nos 34 and 35 are the last two in the 1964 report.

34. ARCHITECTS' FEE IN RESPECT OF ABANDONED WORK, MONTREAL, QUE.—In 1961 architects were engaged to prepare plans and specifications for, and supervise construction of, an addition and alterations to the Queen Mary Veterans Hospital at Montreal. After the architects had completed the sketch plans and preliminary drawings they were instructed to take no further action on the project. Based on an estimated cost of construction of \$9,142,190 and in accordance with their terms of engagement, the architects were paid \$110,047 (\$99,000 in 1962-63) for services in connection with the project. Whether the project will be undertaken at some future time and use made of the plans and specifications is not known.

In No. 34, you have a case where architects were paid an amount of \$110,047 for plans and specifications for construction of an addition and alterations to the Queen Mary Veterans Hospital in Montreal. The plans have never been used.

Perhaps Mr. Lalonde can say whether there has been any change in this situation since.

Mr. LALONDE: I must confess, Mr. Chairman, that I am at a little bit of a loss because these two items were not listed in the notice I received from the secretary. I thought they were going to be dealt with on Veterans Affairs.

However, we have some information which Mr. Boyle can provide to the Committee at this time.

Mr. LEFEBVRE: Perhaps Mr. Lalonde could tell us if he has the background on this—why the decision was taken by the Department of Veterans Affairs to cancel this addition?

Mr. LALONDE: I would have to put on my former hat now.

Mr. BIGG: I question that the Department of Public Works should explain why the Department of Veterans Affairs has a change in policy. It seems an unfair question.

Mr. LEFEBVRE: No; but perhaps he has been given the information by the Department of Veterans Affairs. That is what he is checking right now.

The CHAIRMAN: Well, I think perhaps I should rule on it. It is hardly fair, in this particular case. Mr. Lalonde was deputy minister of veterans affairs and he is now deputy minister of public works. We might be embarrassing him in this regard, but I will leave it with him. If he wants to wear two hats he can go ahead.

Mr. TARDIF: Mr. Chairman, I realize that some information concerning this particular item should be asked of the Department of Veterans Affairs, but is it not an unusual thing, and a surprising thing, on the part of whoever was responsible, that there was a decision that a \$9 million addition to a hospital was absolutely necessary, and then, after reconsideration and after some of the preliminary work has been done on plans, they should decide that it is not necessary anymore? There was not a great deal of time elapsed between the decision that this was necessary and the decision that it was not needed anymore.

Mr. BIGG: Take the "Arrow" airplane \$1,200 million contract.

Mr. LALONDE: No; the explanation is much more simple than that, and I will have to give it to you from memory.

As early as 1959, when, as those of you who have visited Queen Mary Hospital will recall, it was a converted school and the number of active cases was quite high, it was felt that the hospital facilities at Ste. Anne de Bellevue, which had been built in 1914, needed to be replaced, and a number of discussions were held with the doctors who were operating the two hospitals. The best judgment at that time was that because of the closer proximity to Montreal of the Queen Mary Hospital as compared to Ste. Anne's the extension should go on the grounds of Queen Mary next to the more active treatment institution. They started to prepare plans for it.

Later on, the government policy—and most of you are aware of it—veered towards the abandonment of active treatment hospitals because the work load in active cases was going down and there were more and more older veterans requiring another type of hospitalization. At the time, the decision was made to build at Ste. Anne's, rather than at Queen Mary's, and to see if they could not make a deal with the University to take over the active treatment at Queen Mary Hospital. This is why there was a change in the policy.

Mr. TARDIF: And was there, at that time, Mr. Chairman, an addition made to Ste. Anne de Bellevue?

Mr. LALONDE: It is being built now.

Mr. TARDIF: Oh, I see; and do you remember the cost?

Mr. LALONDE: No, I do not.

Mr. TARDIF: Was not the same architect used to do the Ste. Anne job? You do not remember?

Mr. LALONDE: No; I am not sure.

Mr. BALLARD: I wonder if Mr. Lalonde would comment on the appropriateness of paying more or less a "quit claim" fee to the architect when the plans were not used.

Mr. LALONDE: The architect had done some work, and there was definitely some money owed to him. He had to pay some of his draughtsmen and people whom he employs. Whether we like it or not we have to pay him for services rendered.

Now that you mention it, Mr. Tardif, I do not think they were the same architects. I now remember that the firm of architects who did this job were not given the contract for Ste. Anne.

Mr. TARDIF: With that explanation, Mr. Chairman, it is easier to understand. As the soldiers get a little older they need different types of treatment and that takes—

Mr. LALONDE: I think that there is another long-range consideration which will eventually recoup a lot more than what was paid to the architect—

Mr. TARDIF: In that case, the Department of Veterans Affairs will not operate hospitals anymore.

Mr. LALONDE: Not only that, but the site of Queen Mary is perhaps one of the most valuable sites in Montreal now. If the government ever decides to dispose of it they are going to collect a lot more money.

The CHAIRMAN: We will have Mr. Lefebvre and then Mr. Ballard.

Mr. BALLARD: Mr. Lalonde, you wandered away from my question without completing the answer. I would like to interject it here: Do you feel, or do you know, if the amount paid to the architect was in line with the scale of fees as laid down by the Provincial Association of Architects?

Mr. LALONDE: It was, Mr. Chairman. It was in accordance with that scale and in accordance with his contract. When he gets to the production of what we call sketches, or sketch drawings, he is entitled to one-fifth of his total fee. This is what was paid to him.

Mr. LEFEBVRE: This \$110,000, Mr. Lalonde, would be less than if the addition had been built, in which case he would have been paid supervisory duties as well; is that correct?

Mr. LALONDE: That is one-fifth of what he would have received if we had gone ahead with the addition.

The CHAIRMAN: Mr. Lalonde, are these plans which were drawn and paid for now scrapped, or has the government got possession of those if we decide to proceed?

Mr. LALONDE: We still have possession of these. If they do not make a deal for the Queen Mary they may have to make some alterations to it, because I recall that portions of the Queen Mary Hospital were getting fairly old; and if they are going to continue to operate the Queen Mary Hospital for active treatment there are some areas that will have to be rebuilt and those plans will serve partly—not completely, but partly.

The CHAIRMAN: The plans are not scrapped?

Mr. LALONDE: No.

The CHAIRMAN: Thank you.

Paragraph No. 35; a similar situation.

35. COST OF UNUSED PLANS FOR HOSPITAL ALTERATIONS, LONDON, ONT.
—In 1957 consultants were engaged to prepare plans and specifications and to supervise the construction of a new wing and alterations to the surgical and X-ray departments at a London hospital for the Department of Veterans Affairs. When the plans and specifications were nearing completion the Department decided to eliminate alterations to the surgical and X-ray departments because it was felt that to carry out these alterations while the construction of the new wing was in progress would cause too much disruption of the functions of the hospital. After the new wing had been substantially completed, the consultants were re-engaged in connection with alterations to the X-ray department but the new concept envisaged substantial reductions both in scope and cost from what had been earlier contemplated. The original design was therefore abandoned and in August 1963 the consultants were paid \$23,465, on a quantum meruit basis, for services rendered in the preparation of the unused plans.

Mr. HENDERSON: This has to do with the London hospital for Veterans Affairs, where you will see that consultants were engaged to prepare plans and specifications and to supervise the construction of a new wing and certain alterations. It was subsequently decided that to proceed with the alterations while construction of the new wing was in progress would cause too much disruption of the functions of the hospital and these alterations were, therefore, eliminated from the plan.

The consultants were paid \$23,465 for services rendered in the preparation of the unused plans.

The CHAIRMAN: Are there any questions? If there are no questions from the floor my question would be on this point that it would cause too much disruption of the functions of the hospital. That is there and would be there, even before they decided to build the wing. I do not think that is a very good excuse for discontinuing. That is not the Department of Public Works' responsibility, but it seems to be the crux of the problem.

Someone had a question?

Mr. BALLARD: A new term here to me is this "quantum meruit" basis. What does that mean?

Mr. HENDERSON: Well, perhaps the department would care to explain that basis. It is on the basis of work done I think, on the volume of work done in terms of the—

An hon. MEMBER: Rather than on a contract—

Mr. HENDERSON: Yes; that is right.

Mr. BALDWIN: This is a day to day work basis, is it?

Mr. HENDERSON: Would you care to explain this "quantum meruit" basis?

Mr. BOYLE: I might just say that the term I think is taken to mean just that amount of the work which was done that is warranted to be paid. That is what the term "quantum meruit" means. It is a legal term.

Mr. BIGG: Not with reference to a contract?

Mr. BOYLE: That is right; in the absence of some other method of determining what should be paid. In fact, this was built up on the basis of the time expended by the principals of the firm, to which was added the burden for payroll and general overhead.

Mr. BIGG: A gentlemen's agreement.

Mr. BOYLE: It is a Latin phrase to cover up—

The CHAIRMAN: Now, gentlemen, would you please turn to your 1965 Auditor General's report, page 71, paragraph 112.

112. Construction of headquarters building, Department of National Health and Welfare. The lowest tender received in 1961 by the Department of Public Works for the construction of a new headquarters building for the Department of National Health and Welfare was \$7,225,000. The Treasury Board considered this amount to be too high and instructed the Department of Public Works to reduce it by negotiation with the low bidder.

It was decided that a substantial reduction could be effected by a number of changes in the specifications and by relocating the departmental cafeteria in the basement instead of following the original design which proposed its construction as a separate adjacent building. A net reduction of \$512,000 for these changes was offered by the successful tenderer after adding \$26,000 for the work involved in installing the cafeteria in what was previously to have been an unfinished basement area. The alterations in the plans resulted in a negotiated contract price of \$6,713,000.

The Department of National Health and Welfare was not satisfied with the new basement plan and called for a number of alterations. The Department of Public Works also required some changes. When the contractor quoted a price of approximately \$260,000 for the work involved, the Department of National Health and Welfare was informed that the extra cost was unacceptable to the Treasury Board and that all changes would have to be kept within the limit of \$26,000 previously approved. This resulted in further plan changes.

The plan changes involved in the initial price reduction would have been made by the consulting architects without charge but subsequent changes were so numerous and extensive that they asked for and were paid \$56,825 as an additional fee for what was described as "abandoned work and re-design attributable to major changes".

Payments for the construction of the building to date have totalled \$7,264,000, consisting of \$6,865,000 paid to the contractor and \$399,000 to the consulting architects. The increase in the construction cost over the price negotiated earlier is due to additional items of work, primarily in respect of the foundation and the podium area.

Mr. HENDERSON: Paragraph 112 has to do with the construction of the headquarters building of the Department of National Health and Welfare.

This note contains particulars of the various steps involved in constructing the new headquarters building. The point of criticism, however, attaches only to the fact that because of the numerous and extensive changes made in this

construction the consulting architects were paid \$56,825 as an additional fee for what was described as abandoned work and redesign attributable to major changes; in other words, a non-productive payment.

I would repeat, again, that my purpose in setting out these details is to point out how so many of the circumstances in cases such as these are, in fact, beyond the control of the department named; in this case, of course, the Department of Public Works in its role as a service department.

This is a point which is being brought up again at these meetings of the Committee, Mr. Chairman, as it was in 1964, when you dealt with the principle involved in this subject in your sixth report, 1964, with which you are familiar.

● (12.30 p.m.)

We follow a similar practice in the next few notes to come up. They indicate the chain of circumstances causing the non-productive payment.

The CHAIRMAN: Mr. Baldwin, that is very much along the line that you suggested.

Mr. BALDWIN: Yes. I think I used the words at the last meeting, "where the Department of Public Works has a temperamental client which changes its mind." Perhaps the changes are essential; we do not know; but we see the outcome which means these expenditures to which the Auditor General has reference. It is difficult for us to assess whether or not they are all completely necessary, and the Department of Public Works is called upon to answer for them.

Obviously, I doubt that the Department of Public Works is anxious to have all these changes, but somehow there is a lack of liaison there.

Mr. TARDIF: Where these decisions on changes are made—by whoever is responsible, or whoever has the authority for doing so—is this done by correspondence?

Mr. HENDERSON: Yes; the department's files are complete on their exchanges of correspondence with the department for whom they are erecting the building, and this note indicates how both the Department of Public Works and the Treasury Board sought to hold the line on costs, but, notwithstanding this, the work was being pushed ahead.

The CHAIRMAN: I am wondering, Mr. Lalonde, if it would not get around this problem and save the taxpayer a lot of money if your chief architect and the consulting architect and the Minister responsible would sit down together and get these plans all ironed out on paper before you start to build? Has any attempt been made to do this?

Mr. LALONDE: This would be the ideal situation, Mr. Chairman; but just as when a man builds a house and all the plans are complete and the house starts to go up, his wife decides that he is going to put the closet here instead of there—

Mr. TARDIF: Of course, if he is smart, he will never let his wife be around a new house that is being built.

Mr. LALONDE: I must say we have no choice. We have to let our client departments live with us.

The CHAIRMAN: But is an attempt made to do it? Do the husband and wife get together in this case?

Mr. LALONDE: Well, we certainly do. In our new organization we intend to do even more of this.

There has to be a line drawn somewhere by a control agency, and to me that has to be by the Treasury Board, because the Treasury Board is a group of Ministers; whereas our Minister is only one individual and he deals with a number of his colleagues. I think it is unfair to say that the Minister of Public Works should be the control agency for all construction in the government. We are attempting now to re-organize in such a way that we will provide the service, with the Treasury Board providing the control.

Mr. WINCH: Do you think that the offspring of this marriage of yours will be a little more acceptable in the future than some of the offspring have looked like in the past?

Mr. LALONDE: I would hope so. We certainly intend to have an even closer liaison than we have had with all the departments, all the time, including taking part in their long range planning. This is what we want and I hope the departments will agree with us on that principle.

We should be able to plan farther ahead for adjustment in the requirements of departments, let us say, over the next five or ten years; but this will not take away the factor, which I mentioned the other day, of the budgeting by year. This is exactly what happened here. The Treasury Board decided we had too much money in that building for that particular time and they wanted us to change the plans so that it would cost less. Whether it was shortsighted or not, only time will tell.

The CHAIRMAN: On paragraph 113.

113. *Cost of construction of the National Gallery.* In May 1957 a contract was awarded by the Department of Public Works for the construction of a building in Ottawa for the National Gallery of Canada. The contract specified a fixed price of \$4,986,000 with delivery of the building in August 1959.

At the request of the Department of Public Works, this fixed price contract was amended by the Treasury Board six times. The building, which cost \$5,218,000, was finally accepted by the Department on February 3, 1960. The additional costs of \$232,000 were caused mainly by circumstances which had not been foreseen when the contract was entered into.

Site excavation work was delayed by the discovery of clay seams in the rock, which required further core drilling to determine the adequacy of the foundation design. A further delay occurred while underpinning was placed to support electrical ducts located beneath an adjacent sidewalk. In addition, National Gallery officials requested that changes be made in the partitioning and luminous ceilings, etc. These changes necessarily interrupted the contractor's timetable and added materially to the final cost.

Following delivery of the building, the contractor submitted a delay claim covering his site administration costs, loss of productive equipment

time and increased heating and other costs. The claim was paid in the amount of \$35,632 in August 1964.

Mr. HENDERSON: This is another case along not dissimilar lines. The contract for the construction of the National Gallery was let in May, 1957 and the building was finally accepted by the department three years later in February, 1960. In August, 1964, a claim was paid for \$35,632 representing a delay claim for administration costs, loss of productive equipment time, increased heating and so on, made by the contractor because of the circumstances which are explained in the third paragraph. In other words, discovery of clay seams in the rock, requests by the National Gallery officials for changes in the planning and so on, all of which interrupted the contractor's time table and consequently, caused the extra expense to be claimed.

In this case, also, I think the contractor's claim was considerably larger and it was as a result of the negotiation carried out by the department that they were able to reduce the claim to the amount they paid, \$35,632.

The CHAIRMAN: Are there any questions?

Is this clay seam that they ran into a similar soil testing problem?

Mr. WILLIAMS: Actually, there were 19 test holes on the site before the work started, although it was not an easy site on Elgin Street. They established rock again below the level of the overburden. In the drilling—from the evidence—it appeared that the rock was satisfactory for the foundations, or, at least, there was nothing to say that it would not be. When the excavation of the overburden was subsequently taken off by the contractor it was possible to see and detect the clay seams which had to be re-proven to establish the rock conditions for each individual footing.

The CHAIRMAN: Were you satisfied with the work that your drilling company did?

Mr. WILLIAMS: We are never satisfied. I think it was the best they could do under the circumstances.

Mr. BIGG: I understand that this is a problem of not knowing that it is not bedrock; is that right?

Mr. WILLIAMS: Not precisely sir. It is a case of being into bedrock, but the geological formation in Ottawa—the rock formation adjacent to the Ottawa River—is on a faulted area. You cannot predict to what extent the faults will have shattered the rock.

The drilling takes place and you recover your core; and do not forget that these are by water jettings and a diamond drill working 30 or 40 feet below the surface—the core does not always come up, particularly in this area, as a solid core, it comes up fractured. Water jetting takes out the clay that is in the core and you cannot really tell whether it is seams or layers or a sandwich of clay and rock or whether it is just shattered rock. You can only really discover this condition when you have dug the hole.

The CHAIRMAN: Thank you, Mr. Williams. It appears that we have faults above the ground as well as underground!

On paragraph 114.

114. *Cost of revised and abandoned plans for buildings in Ottawa.* In March 1961 two firms of consulting architects were engaged to prepare

plans and specifications and to supervise construction of a headquarters administration building in the Confederation Heights area for the Department of Northern Affairs and National Resources, together with an adjoining headquarters building for the Department of Forestry. The complex was also to include accommodation for the Canadian Government Travel Bureau and a unit of the Department of Public Printing and Stationery. The estimated cost of construction was \$9,987,000 with architects' fees amounting to \$484,000.

The architects completed the plans and specifications for the project by early 1963. Subsequently it was decided not to locate the Department of Forestry and the Canadian Government Travel Bureau in the complex. The architects thereupon redesigned the plans for the remaining known occupants. It later developed that the space planned for the unit of the Department of Public Printing and Stationery was not required.

In November 1963 strenuous objection to the Confederation Heights location was lodged by the Minister of Northern Affairs and National Resources on the grounds that the Department should be located in the central part of the city "with ready access to the House of Commons". This objection led to cancellation of the proposal to locate the Department at Confederation Heights and it has since been accommodated in a new downtown building, 219,000 square feet of space having been leased for a period of ten years at an annual rental of \$688,000. The Department had previously occupied 120,000 square feet in a number of down-town buildings with an annual rental value of approximately \$351,000.

In May 1964 the Treasury Board approved in principle modification of the Confederation Heights building plans to adapt them for an administration building for the Taxation Division of the Department of National Revenue. In order to salvage as much as possible of the plans already completed, the Department of Public Works proposes to retain the building in its original design except that it will be reduced from seven to five storeys with the cost of construction estimated at \$6 million. It also proposes to construct a building in the same area to house a data computer centre for the Department of National Revenue and a cafeteria building to be linked to the administration building, the estimated cost of these being placed at \$9 million.

As a result of this re-planning of the whole project, it is estimated that the fees which will finally be paid to the two firms of architects will approximate \$936,000, including an expense of about \$220,000 resulting from the revisions to and the abandonment of plans in respect of the original concept.

Mr. HENDERSON: This note describes a project which had to be substantially replanned and as a result it is estimated the final fee settlement made with the two firms of architects involved will include about \$220,000 which can be attributed to the revisions and abandonment of plans made in respect of the original concept. Again this note recites the circumstances which led up to the incurring of this non-productive expenditure, and it shows the other departments involved.

Mr. BALDWIN: The reason assigned for one change was that the department should have ready access to the House of Commons. I think that should be ready access to the Public Accounts Committee!

The CHAIRMAN: Well, this is a very costly change. There is a lot of money involved in this one.

Mr. WINCH: Could I ask why there is the unusual situation on one building of having two firms of architects on plans and specifications? Were they both paid 5 per cent. How does it work?

Mr. JACKSON: Mr. Chairman, it is not unusual on large buildings to have two firms engaged on preparing the plans and specifications. It is a partnership, and they collect only the percentage that is allowed, whether it is one firm or two firms.

The CHAIRMAN: Are there any further questions. Mr. Schreyer.

Mr. SCHREYER: What reasons were given by the Department of Forestry and by the officials of the Travel Bureau for their decision to opt out of accommodation built at Confederation Heights? We know why the Department of Northern Affairs wanted to be left out of this building, but we are not told of the reasons given by the initial two departments.

Mr. JACKSON: Mr. Chairman, it was only shortly before that time that the Department of Forestry was established as a separate department. It was the opinion of the Minister and officials of the Department of Forestry that they would be better located on the Montreal Road beside the Forest Products Laboratory which has been located out there for some time on property adjacent to the Central Mortgage and Housing property.

The Canadian Travel Bureau was transferred from the responsibility of the Department of Northern Affairs to the responsibility of the Department of Trade and Commerce, and it was their desire, therefore, to be located more closely to the departmental headquarters of Trade and Commerce.

The CHAIRMAN: If we could only get all these decisions made before we start to draw up the plans, it would help a lot.

Mr. BALDWIN: This is particularly interesting, Mr. Chairman, in view of the government re-organization bill. I wonder how many changes and how many new buildings are going to arise as a result of this particular re-organization? I am sure the Department of Public Works is giving a lot of consideration to it now.

Mr. LALONDE: No, Mr. Chairman; this time we are going to do it all in leased accommodation.

Mr. BALDWIN: I see.

Mr. BIGG: I wonder if I might suggest that this government planning of accommodation might be done in some centrally located office, and not have buildings abandoned and plans changed at the whim of a Cabinet Minister. I do not want to do away with the prerogatives of the Cabinet Ministers, in general, but I think on the question of housing and planning of the Ottawa area, that we cannot have people wanting the Forestry Department up in the Gatineau Hills and someone else wanting the Agriculture Department somewhere else.

Surely this could be co-ordinated without big changes like that, and could be done with some continuity.

I would like to have that on the record.

Mr. FLEMMING: Mr. Chairman, my question has to do with the accommodation for the unit for the Department of Public Printing and Stationery. In the first paragraph it states that the complex was to include "... accommodation for the Canadian Government Travel Bureau and a unit of the Department of Public Printing and Stationery. . ." In the latter part of the next paragraph it says: "It later developed that the space planned for the unit of the Department of Public Printing and Stationery was not required." My question is: Who stated that it was required in the first place. Who made the mistake? This seems to me to be quite a glaring mistake. A unit is required for a certain purpose and then, before they even proceed for a month or perhaps a couple of months, someone decides it is not required.

My brief experience was that discussion took place between the Department of Public Works officials and the department concerned, and from that came the request that space be provided on the basis of requirement.

Here is a case where, apparently, it was thought to be required, and then later—and not too much later, either—it was decided that it would not be required. I am just wondering what the explanation is.

Mr. JACKSON: Mr. Chairman, in 1958, when the requirements were developed, the Department of Public Printing and Stationery at that time requested space to service that area of Confederation Heights. They knew at that time that the Post Office, Northern Affairs, the Travel Bureau—which uses the Printing Bureau to a considerable extent—and the Department of Transport and other departments, were being located there and they felt that, in the light of that large number of departments and the services required for them, they should have a unit located there.

It was not until 1963 that, because of the changes that developed for the area and the changes that have taken place in connection with the operation of the printing bureau and its services, they decided to withdraw that request and provide the services from some other location.

The CHAIRMAN: Mr. Winch, before you leave, we will have to continue this afternoon at 3.30 or after orders of the day.

Mr. WINCH: Mr. Chairman, I have been in Committees since 9.30 this morning and I would like to go to my office.

The CHAIRMAN: We quite appreciate that, Mr. Winch, and we will endeavour to finish the Department of Public Works this afternoon. We will just continue for a short period and then we will adjourn.

Paragraph 115 is next.

115. *Cost of abandoned plans for headquarters building, Department of Transport.* In 1957 the Department of Transport requested a new headquarters building in Ottawa and in 1960 the Department of Public Works agreed that provision should be made for a suitable building in the Confederation Heights area. Preliminary plans were for a building expected in October 1961 to cost between \$10 million and \$12 million.

Two firms of consulting architects were appointed in November 1961 to prepare plans and specifications and to supervise construction. However, following consideration of a master plan prepared for the National Capital Commission for the future development of federally-owned property in the Confederation Square area, the decision was taken in September 1963 that the proposed Department of Transport building should be located in this area.

It was decided in June 1964 to discontinue the services of the consulting architects and the contract was cancelled, with the consultants, who had done considerable work on the plans for the proposed building being paid \$80,580 for their services.

Mr. HENDERSON: This note recites how in 1957 the Department of Transport asked for a new headquarters building. Three years later the Department of Public Works agreed that provision should be made for it in the Confederation Heights area. Two firms of consulting architects were appointed to prepare plans and specifications and supervise construction. However, the decision was taken in September, 1963 that the new building should be located in the Confederation Square area. The following June the services of the consulting architects were dispensed with and they were paid \$80,580 for their services.

The CHAIRMAN: This is the same thing all over again.

Mr. BALLARD: Mr. Chairman, this seems to be a succession of frivolous planning and subsequent cancellation of plans, which so far has cost us about \$350,000.

The CHAIRMAN: You have been adding them up as we go along?

Mr. BALLARD: The last three.

An hon. MEMBER: It is much greater than that.

Mr. BALLARD: It is much greater than that on the whole, but these three items amount to \$350,000, and it is a result of frivolous planning on the part of Ministers.

It just points up the fact, as somebody mentioned a moment ago, that there should be a central planning authority for future development and continuity in development.

The CHAIRMAN: Is there anything that the department wishes to say on this?

Mr. BALDWIN: And a little more backbone in the Treasury Board.

The CHAIRMAN: Something definitely has to be done, because it is costing the taxpayer altogether too much money, with everyone changing their minds. Whatever the answer is, I do not know.

Mr. LALONDE: I might say, Mr. Chairman, that no matter what you do, it will never be cut and dried in every case.

Ten years ago the policy was to locate government buildings on the outskirts; now it is to develop the downtown area. This is where all of these buildings are going to be, in the Union Station area and in the LeBreton Flats complex. Perhaps 10 or 15 years from now a new policy will come into effect because of traffic problems.

Therefore, I do not think that we can say it will always be this particular policy. We will always be subject to that as we are subject to legislative changes.

Mr. BALLARD: The point remains, Mr. Chairman, that the present outlook is for the development of the downtown area. This is quite acceptable, but my argument is, that while this is acceptable at the present time, we do not want to look forward to next year and find that the government of the day has decided to move the whole city out to the Gatineau Hills. This would be as frivolous as what has been happening.

I hope there is some long term, or long range, plan for development, which will be acceptable over a long period of time and will not be subject to continuous changes.

Mr. FLEMMING: I wanted to ask Mr. Lalonde about his remark in connection with leasing, which, I think, has a good deal of merit. He remarked a moment ago that in the future he felt that a good deal more leasing would be carried on by the department. Presumably the buildings would be built by private enterprise. Is that right?

Mr. LALONDE: I did not say that, Mr. Flemming. I said that the changes in the departments, which are occurring as a result of the bill which is at present before the House, will be taken care of through leased accommodation.

I think that the question of Crown-owned versus leased accommodation is one that is a great deal more complex than appears on the surface.

There are a number of factors. First of all, there is the very important fact that if you do more of one than of the other you are going to break a balance that, in the long run, will catch you in a very precarious situation. For instance, if we say we are going to provide accommodation only through leased premises, sooner or later we will find ourselves at the mercy of those who hold the leases when we come to renew them. We have to have a balance between the two, and I think that we should strive, both in the national capital area and in the larger cities, to maintain that balance.

The CHAIRMAN: One more item and then we will adjourn. Paragraph 116.

116. *Cost of modifying heating plant in new building, Toronto.* The Mackenzie Building was built to house government departments in Toronto and was accepted from the contractors in stages between November 1959 and April 1960. Its final cost was \$13,087,000.

At the request of the Department of Public Works, the consulting architects provided for the use of coal in heating and specified underfeed ram type stokers. Over the period of a year during construction the contractor operated the boiler plant for temporary heating using the type of coal recommended by the stoker manufacturer.

Difficulties in operating the heating plant were encountered by the Department shortly after it took delivery of the building. The architects denied responsibility, pointing out that they had advised the Department of the importance of purchasing coal based on the recommendations of the manufacturer of the installed equipment but that their advice had not been taken.

In 1964 the Department converted the heating plant from coal to natural gas, with oil as a stand-by, at a cost of \$27,389.

Mr. HENDERSON: This note has to do with a non-productive payment made in connection with the Mackenzie building in Toronto. As is explained here, difficulties were encountered in operating the heating plant shortly after the department took delivery of the building. However, the architects denied responsibility saying they had advised the department of the importance of purchasing the coal recommended by the manufacturer of the installed equipment, but that their advice had not been taken; and as is indicated here, a non-productive payment was incurred when the department converted the heating plant from coal to natural gas at a cost of \$27,389.

The CHAIRMAN: I think this one is right on the doorstep of the Department of Public Works. I do not think it is a change of mind outside the department this time.

Mr. FREEZE: What you say is quite true, Mr. Chairman. Nevertheless, I think it is important to say that the alternative of gas was not available to the department when the decision was initially taken to use coal. There were changed circumstances during the period between the beginning of the design and the actual operation of the building.

In simple language, the situation here is that in spite of considerable care on the part of the Department of Public Works' workmen the heating plant in the building was incapable of producing, with the fuel that we were buying, proper heating of the building. Therefore, some remedial action was necessary.

We had to change from one type of fuel to another, and our investigation indicated that changing from the type of coal we were buying, which was Canadian coal, to American coal, would not produce the amount of BTU's that were necessary to heat the building, and we felt that we had to change to a different kind of fuel.

We examined the economics of using coal, of using oil and of using gas. While it was possible to show that the best picture would be provided by the use of heavy oil, we were also conscious of the fact that the use of heavy oil in downtown Toronto would create problems unless we put in expensive scrubbing equipment to keep oil vapours out of the air, and in the circumstances we chose to go to gas.

I am sure that the department was conditioned, to some extent, in its decision to use gas rather than coal, or to convert to another kind of coal, by the fact that the annual using cost of gas, as opposed to coal, would result in a saving of about \$12,000 per year, because you do not need quite as much labour or fuel handling equipment, and that the savings would, therefore, pay out the cost of the installation of gas burners. The cost of \$27,000 was for the installation of equipment that was not then in the building, and this would be paid out in two or three years. We would increase the efficiency of the boilers by some 25 per cent by using the gaseous fuel, and this would obviate the necessity for putting in additional boiler capacity.

The CHAIRMAN: Excuse me, Mr. Schreyer I would like to follow here.

Who made the decision to burn coal in the first place?

Mr. FREEZE: The government policy at the time the building was designed was to use Canadian coal where it could be delivered.

The CHAIRMAN: Therefore you had the architect put in heating equipment to burn coal. He put in the type of equipment that would heat the building, so he states, and would burn Canadian coal. Was this not the fact?

Mr. FREEZE: No; I am sorry. The type of equipment he put in for fuel handling would not operate with the kind of Canadian coal; it was American coal.

The CHAIRMAN: Did you not clear with him that your policy was to burn Canadian coal?

Mr. FREEZE: Yes.

The CHAIRMAN: Well, you accepted equipment that would not burn Canadian coal?

Mr. FREEZE: Equipment was accepted that would not burn Canadian coal.

The CHAIRMAN: The Department of Public Works installed equipment that was not capable of burning Canadian coal.

Mr. FREEZE: That is right.

The CHAIRMAN: And, your policy was to heat with Canadian coal.

Mr. FREEZE: That is correct.

The CHAIRMAN: That is the answer to this whole section as I see it.

Mr. SCHREYER: Mr. Chairman, I just wanted to say that it seems quite impressive that the cost of conversion could have been recouped in less than three years. The only question that remains is this: Is this \$27,000 the net cost of conversion after the sale of the coal-burning apparatus? As a matter of interest, what happened to it? Was it sold?

Mr. FREEZE: I am sorry, Mr. Chairman, I do not know what happened to the stokers. I can find out.

If it was sold, it would be sold through Crown Assets Disposal Corporation and the funds would not be charged against this particular installation.

Mr. SCHREYER: Do you believe the cost to the taxpayer might have been reduced even further.

Mr. FREEZE: It could be.

The CHAIRMAN: Apparently the contractor could heat the building, and he burned the coal recommended by the stoker manufacturer.

Mr. FREEZE: Yes; I think you must recognize that the contractor was not heating the building to the same extent that is necessary in an occupied building.

The CHAIRMAN: It is unfortunate that you did not specify that you were going to burn Canadian coal. You could have had equipment put in which would have handled Canadian coal.

This is why it is on your doorstep.

Mr. LALONDE: This is one of those sins which we were talking about earlier.

The CHAIRMAN: The meeting is adjourned until after orders of the day.

Thank you, gentlemen.

AFTERNOON SITTING

● (3.46 p.m.)

The CHAIRMAN: Gentlemen, I think we will proceed. I know there are some other members on the way. If you will turn to your 1965 Auditor General's Report, we will commence on page 74, paragraph 117.

117. *Relationship of site cost to building cost, Woodstock, Ontario.* In considering proposals for the construction of federal buildings the Treasury Board follows a general rule that the costs of the site should range between 15 per cent and 25 per cent of building costs. If a greater percentage of cost appears, the department concerned is required to explain in detail the special circumstances necessitating the higher cost.

In the case of a new federal building in Woodstock, the site cost exceeded 52 per cent of the building cost when the proposals of the Department of Public Works were set aside in favour of those made by municipal officials and others.

In September 1960 the Department received the concurrence of the Treasury Board's Advisory Committee on Accommodation Standards to a proposal for erection of a federal building to house government departments at Woodstock at an estimated cost of \$425,000. The site approved by the Committee was a Crown-owned armoury property and an adjoining property, which it was expected could be acquired for approximately \$60,000. Its location, less than two blocks from the main street and adjacent to the provincial buildings was reported to be acceptable to the municipality.

Shortly after taking this decision the Department was asked by the Mayor and others to consider another site which it was claimed would prove more beneficial to the municipality in its overall planning and would help to rehabilitate a depressed section of the city. While the location of this site compared favourably with the original one, the Department viewed with concern the increased cost of acquiring it.

However, in February, 1962 it decided to proceed with the site favoured by the local officials and expropriated six properties required for siting and parking facilities.

During 1962 and 1963 the Department submitted proposals for settlements to the Treasury Board for approval. In September 1962 the Board stated that although the land costs appeared unnecessarily high, "abandonment of the properties would result in very serious claims being submitted against the Crown which in turn would tend to outweigh any savings to be realized by reverting to the Armoury or some other less costly site".

The total cost of the site including payments to the former owners, to certain tenants in respect of leasehold interests, legal services, demolition of the buildings, etc., amounted to \$283,000. The final cost of the building erected on the site, with associated costs including consultants' fees, will approximate \$537,000.

Mr. A. M. HENDERSON (*Auditor General of Canada*): This is a case where my officers noted the substantial percentage of the total cost expended on the

building site. It is a practice in the audit office to follow the expressions of opinion and the criteria laid down by the Treasury Board, which is frequently very helpful to us, in exercising our own judgment on matters coming to our attention.

This is a clear case where proposals of the Department of Public Works were set aside in favour of those made by municipal officials and others. It will be seen that the department believed that a federal building could have been erected at Woodstock at an estimated cost of \$425,000, a figure which was later revised to \$550,000, with approximately \$60,000 spent on the site.

The final total costs of the site, including payments which had to be made to the former owners, to tenants in respect of leaseholds interests, legal services, demolition of the buildings et cetera, as you will see, amounted to \$283,000. The final cost of the building is expected to approximate \$537,000.

Mr. D. A. FREEZE (*Director, Property and Building Management Branch, Department of Public Works*): Mr. Chairman, I do not have much to add other than to say the facts are as stated. I do not know if Mr. Henderson made it clear that it was a different site that cost \$282,000 to the one that was estimated at \$60,000. Other than that, I cannot add any more. I would be glad to comment on any questions.

Mr. BIGG: Was any representation made to the city in this slum clearance program? It seems to me that we were engaged in a slum clearance program, the demolition and so forth; did the municipality contribute at all to this?

The CHAIRMAN: I think, Mr. Bigg, by your question you mean why did they not build the post office on crown owned land.

Mr. BIGG: Yes, and if there was a good reason for not building it there, were any overtures made to the city that they should contribute to this greatly increased cost?

Mr. FREEZE: Yes and no. I might make it clear in the first instance that the proposal of the Department of Public Works was not to build on the Department of National Defence land but on land adjacent to it; but because of the contiguous D.N.D. land, which was more than they needed, we were going to be able to acquire a portion of their site which they did not have in use for off-street parking, for rear yard facilities, and it allowed us to get by with a much smaller expenditure for land than elsewhere in the city. Our attention, however, was directed to a piece of property in the core of the city and in directing our attention to it, the city indicated to us that they would be re-developing that area. It abutted on the market square in Woodstock, if you know that particular part of the city. They were going to have a re-development of that area and that our building being placed there would co-operate. However, they made no contribution to the purchase of the land that we subsequently bought.

The CHAIRMAN: I would gather, Mr. Freeze, from what you said—I happen to know the city of Woodstock—that where the post office is now located is a much better location than if it had been built adjacent to the armoury property, and the city were successful in clearing up a slum area and re-developing, as you say—It has turned out to be more convenient for the post office to be located where it is.

Mr. FREEZE: The Post Office Department stated that they favoured the down town site to the other which is not that far away from the down town area. It is about four blocks distant. The Post Office definitely favoured the more expensive site.

Mr. BALLARD: Are the factories all located much closer to this central site?

Mr. FREEZE: Yes, I would think so.

Mr. NOBLE: Mr. Chairman, from whom was this property purchased?

The CHAIRMAN: I suppose a number of owners?

Mr. FREEZE: Yes. There were six owners and two tenants, who were paid: J. B. Bickerton; Charles R. MacCormack; Daniel and John Murray; G. O.; Tatham; Douglas Cleaners Limited who were a tenant of Tatham; Mr. B. R. Thompson; the Brewers Warehousing Company Limited, a tenant on the Thompson property and Woodland Beverages Limited.

● (3.50 p.m.)

Mr. BALLARD: Mr. Chairman, how large a plot of land is involved?

Mr. FREEZE: The property has a frontage of approximately 173 feet on Market Square and a depth of approximately 165 on Reid Street and slightly more than that on Metcalfe Street.

The CHAIRMAN: If there are no further questions we will proceed, but it would appear that the Post Office people are satisfied with the location, the city of Woodstock are pleased with the location and it cost \$112,000 more. The finished cost was \$537,000 and it would have been \$425,000 so the difference would be \$112,000 extra.

Mr. FREEZE: That is the building you are talking about.

The CHAIRMAN: This is just the building.

Mr. FREEZE: The first piece of land was estimated at \$60,000 and the other cost about \$282,000.

The CHAIRMAN: So you have to add that.

Mr. FREEZE: Yes, \$120,000 odd.

Mr. BIGG: The crown still owns the land not used I should think?

Mr. FREEZE: Yes, the Department of National Defence are still in occupancy of their site. The crown did dispose of its old post office, however, to the city.

Mr. HENDERSON: This is not a non-productive item, as you can appreciate. It is something that could have been put up at a considerable saving of money. That is the reason I have it in my report. You have a situation where the department was proceeding in the perfectly normal course. It received the concurrence of the Treasury Board's advisory committee on accommodation standards and were proceeding to go about its undertaking here when the municipal officials moved in and caused it to go to all this additional expense.

The CHAIRMAN: The municipality did not pay any of the added cost?

Mr. HENDERSON: They made no contribution. It did have the merit of rehabilitating a depressed section of the city, but they did not contribute toward that.

Mr. BIGG: I would have thought there would have been an overture, at least, in that regard. It seems there was a considerable expense in demolition and so on. In view of the fact that they were co-operating with the city, I would have thought that it would have been in their interest to have co-operated to a certain extent, in the demolition at least, that is, preparing the property for resale.

The CHAIRMAN: Was any overture made, Mr. Freeze, to the municipality for them to pay some of this cost?

Mr. FREEZE: Not directly, but it was pointed out to the city that we felt they should give us some assurance that there would indeed be a re-development of the area and that off-street parking facilities would be provided. Subsequently, the city has put in a parking lot. I cannot say anything about the cost of it or the usefulness of it. I only know that one was put in.

Mr. BIGG: Have you been given some parking rights off property.

Mr. FREEZE: The government finally convinced the city that they should not be expected to provide off-street customer parking in this particular location in view of the city's plans. The city finally agreed to this and then they, in turn, I understand, have provided parking in an off-street parking area.

The CHAIRMAN: Section 118.

118. *Cost of little-used railway spur line, Pointe-au-Père, Que.* In 1958 the Department of Public Works decided to proceed with the construction of a deep water winter port at Pointe-au-Père costing approximately \$3 million. Included in this development was to be a spur line, 3½ miles long, from the Canadian National Railways main line to the proposed port. The Department estimated the cost of such a spur line at \$600,000 and invited the Railways to give favourable consideration to this investment as their share of the overall project.

The Railways declined, stating that their assessment of the situation was that the possible new rail traffic which might be expected to result from the building of the line would not justify their assuming "all or part of the capital cost and/or the related annual maintenance cost".

In 1960 the Department obtained authority from the Treasury Board to enter into a standard industrial siding agreement with the Railways which provided that the Department would accept financial responsibility for the acquisition of the site, the construction of the right of way, maintenance and snow removal. The Railways agreed to install the rails and associated equipment for which an annual rental would be required.

Construction of the spur line was completed in 1961 at a cost of \$401,000 to the Department, whereupon it transferred the facilities to the Department of Transport for control and management, with the latter Department becoming responsible for the payment of the annual rental of \$4,169 for the trackage. However, no annual rental has been paid yet.

The Department of Transport was concerned that responsibility for this spur line should be thrust upon it in this way and asked for a clarification of policy. As a result, the Treasury Board in 1963 approved of a new policy to be followed in future with respect to the installation of railway tracks on government wharves. This policy provides that tracks

at new wharves are to be installed only at the request and expense of a railway, with the railway determining whether the traffic involved would justify such consideration.

The wisdom of this policy is illustrated by the use made of the spur line since its construction at Pointe-au-Père. Only four carloads were handled on the spur in 1962 and none in 1963. The primary use of the track has evidently been to bring railway cars to the wharf in winter to serve as a windbreak for ferry traffic.

Mr. HENDERSON: There is little I can add to the facts given in this section, Mr. Chairman. Perhaps Mr. Lalonde may have something to add. As you see, the railway spur line has not exactly been a busy spot. The primary use of the track has evidently been to bring railway cars to the wharf in winter to serve as a windbreak for ferry traffic.

Mr. G. MILLAR (*Chief Engineer, Harbours and Rivers Branch, Department of Public Works*): Mr. Chairman, in the first place, I want to say that the statement of the Auditor General is a true statement. The railway was built; the CNR did not want to pay for it; Treasury Board approved that the federal government would pay for it through our estimates, and it has never been used.

The story starts this way. At Rimouski, six miles upstream from Pointe-au-Père, for the last 25 years previous to that time there was a subsidized ferry boat running across from Rimouski to Baie Comeau in the summer and from Pointe au Pic on the north shore of the St. Lawrence to Baie Comeau in the winter.

In 1957-1958, there was pressure on the government to provide year round modern ferry boat service across the St. Lawrence and it could not be put at Rimouski for engineering reasons. The Department of Transport had abandoned a wharf at Pointe-au-Père, the former site of a piloting station, and this was known to be a better location for a winter port. A \$3 million project for this ferry was proposed and built on this site. During the planning and the building of the wharf, the Department of Transport, the Department of Public Works and the Canadian Maritime Commission, who were providing the subsidy, were in close contact. In fact we had a committee in 1959 that was fairly active. When the operator of the ferry was trying to negotiate a new subsidy for a new ferry boat with the Canadian Maritime Commission we had to know what type of boat was going to be used and the approximate size. Previously, the ferry operated from a rail head at Pointe au Pic and at Rimouski from a main rail line.

It was never questioned that there would not be any freight going over the ferry. In fact, Clarke Steamship, the original subsidized ferry operator, proposed in their scheme to bring freight by rail piggy-back to Pointe-au-Père and to offload it there, put it on the ferry and attach a tow motor at Baie Comeau for delivery to the owners, without any breaking up of the freight.

At that time it was realized that the freight would not be substantial but it never came up that the rail would not be required. Originally we had proposed to the Treasury Board that the federal government, through the Department of Public Works, pay for the rail but they advised us to try to get the CNR to pay

for it. There was considerable correspondence and eventually Treasury Board agreed that the Department of Public Works would pay for the rail line under a standard siding clause.

The main wharf was built and negotiations broke down between the Canadian Maritime Commission and the original subsidized operator. In December 1960 they subsidized a new company, made up of people from Rimouski who had not been in this business before, to purchase a large ferry that became available in the United States. It had been operating in the Straits of Mackinac and when the bridge was built there it became available. The Canadian Maritime Commission subsidized this company, I believe in the amount of \$1.5 million to purchase this ferry and to operate it from Pointe-au-Père to Baie Comeau. This company was not interested in the freight business. They were interested only in getting cars and trucks in the ferry and this is what they handled. There was no loose freight,—it was all vehicles, so, therefore, there has been no need for the rail so far.

● (4.00 p.m.)

Mr. BIGG: I see there is an item of annual rental of \$4,000 for trackage. It appears that this railroad line is absolutely useless except for a windbreak. Are we going to keep on paying \$4,000 a year for the next 20 years for the lease of a piece of track, or are they going to sell it back to the railway or pull it up or what?

Mr. MILLAR: Unfortunately, or fortunately, for this department, the Department of Public Works only constructs. When we build such a wharf and facility we pass it on to the Department of Transport for administration under the harbours and piers act. This is normal practice. So now it is the Department of Transport that has to pay this \$4,000 a year and they have no revenue at all from it. It has not been paid, by the way.

Mr. BIGG: It has not been paid?

Mr. MILLAR: No.

Mr. BIGG: You have not been paying this \$4,000?

Mr. MILLAR: They are in arrears to the CNR; they are still negotiating with the CNR to try and resolve it.

Mr. BIGG: Mr. Chairman, I would just like to make a note here that we check with the Department of Transport on this item and see if we can cut our future losses in this regard.

The CHAIRMAN: We must not pass lightly over this one. It is a ridiculous situation. We have spent over \$3 million; four carloads have been over the spur line and I presume that today there is none passing over it.

Mr. MILLAR: Very little.

The CHAIRMAN: Who built the spur line?

Mr. MILLAR: The CNR and we paid for it under a siding agreement. There was some cost to the CNR but we paid \$400,000.

The CHAIRMAN: Did the CNR state that they were not interested in it or that it was not a good proposition?

Mr. MILLAR: Yes, originally we tried to get the CNR to build it at their own cost; they refused.

The CHAIRMAN: They refused? Then who went ahead and built it?

Mr. MILLAR: Our department.

The CHAIRMAN: The Department of Public Works?

Mr. MILLAR: By the CNR under the agreement.

The CHAIRMAN: This is the story: the CNR advised against building the spur line but the Department of Public Works overruled the CNR's thinking and went ahead and built the spur line. Am I right? Correct me if I am wrong.

Mr. MILLAR: Generally, yes, sir.

Mr. LALONDE: No, we did not build it; the CNR built the spur line.

The CHAIRMAN: They built it but you paid for it.

Mr. MILLAR: They did the actual work but we paid for it.

Mr. BALLARD: I would like to be very clear, Mr. Chairman, on this particular point. The CNR did not want to pay for the line but the Department of Public Works recommended that it be built, or was it the Department of Transport?

Mr. MILLAR: It was the Department of Public Works.

Mr. BALLARD: The Department of Public Works recommended that it be built.

Mr. MILLAR: Yes.

The CHAIRMAN: I say that we should not pass lightly over \$3 million spent.

Mr. BIGG: Especially when it entails future costs.

Mr. BALLARD: Mr. Chairman, might I ask then what studies did the Department of Public Works carry out or what investigations did they make that brought them to the conclusion that this line should be built in view of the fact that the CNR said that it was not an economic venture.

Mr. MILLAR: There were economic studies made in co-operation with the Department of Transport, and it did not show that there would be too much freight at the beginning. But they stated that eventually it might come into its own. It was not economic at the beginning according to the report.

Mr. BALLARD: It was built on the supposition of something that might happen, that there might be an increase in traffic some time in the future?

Mr. MILLAR: Yes.

Mr. BALLARD: But this, of course, did not come about.

Mr. MILLAR: It has, but not through freight. It has, through trucks.

Mr. LALONDE: You might make a distinction, Mr. Chairman, between the item of \$3 million which is for the construction of the harbour and the item for the spur line which is \$401,000. The argument is really about the spur line and not about the harbour.

Mr. BALLARD: The harbour is being used?

Mr. MILLAR: Oh, yes.

Mr. BALLARD: It is being used to accommodate truck traffic?

Mr. MILLAR: Yes, and the ferry has not missed one day since it started operating in 1962.

Mr. BALLARD: So really we are discussing a matter of \$400,000, not \$3 million?

The CHAIRMAN: \$401,000, the cost of the spur line.

Mr. HENDERSON: May I say, Mr. Chairman, with reference to the ferry which was mentioned, the Committee may recall this was discussed when considering the paragraphs in my 1964 report, where in paragraph 87 I deal with the federal contribution to the cost of the particular ferry vessel which uses this port. This was the ferry vessel, as Mr. Millar said, which had been used in the straits of Mackinac. The balance sheet of the company which was incorporated for the purpose of operating the ferry showed a paid up capital of \$180,000, but it was able to purchase the ferry and put it into service because it received a subsidy of something like \$2.3 million.

Mr. BIGG: And built a port to accommodate it.

Mr. HENDERSON: And then on top of that this port has been built to accommodate the ferry. The reference to this case in the 1964 report was to show the very small equity that the operators had in the operation. You have already discussed this.

Mr. BALLARD: Mr. Chairman, one other question. I realize that we are not talking about as large an amount as you had indicated originally, but is it possible to cancel the agreement with the CNR whereby we pay them \$4,000 a year? I know that nothing has been paid but could that agreement be cancelled?

Mr. MILLAR: This is what the Department of Transport is endeavouring to do now with the CNR.

Mr. LALONDE: I think this is one of those cases which may be hard to explain but when the planning was done, it was done for a kind of ferry that included the transport of freight. That is why the spur was built. Later on, when the new type of ferry came along, it did not use the freight line any more; it was a roll on, roll off type of service they were providing. That is when the spur line, which was intended to be used, became useless.

Mr. BIGG: I presume they intended to load box-cars right on to the ferry itself. Is that correct?

Mr. MILLAR: No, they were piggy-back trucks. The trucks would be loaded on flatcars in Montreal, for example, and railroaded to Pointe-au-Père, taken off by the road truck, put on the ferry and then taken off again at Baie Comeau and driven to the destination.

The CHAIRMAN: I am thinking of your department, Mr. Lalonde. You were not the deputy then, but the Department of Public Works spent \$401,000 on the spur line out of your appropriation.

Mr. LALONDE: That is correct, Mr. Chairman.

The CHAIRMAN: The Department of Transport are to pay a rental of \$4,169 a year for the trackage.

Mr. LALONDE: Yes. For the trackage part for which we did not pay.

The CHAIRMAN: You are stuck with spending \$401,000 in building the track for another department which is not using it, so you should really get a credit back to your department for a non-productive account. Really it is the Department of Transport's responsibility.

Mr. LALONDE: Well, actually, since the money came out of our estimates originally you would have to go back and put an item in the Department of Transport's estimates. But since we always pay for the wharfage facilities which we build and then turn them over to them, this payment was made out of our own estimates in the regular way. You may say that it has become a payment which did not produce what we thought it would produce for the Department of Transport. That is quite right.

The CHAIRMAN: Are there any further questions?

119. *Failure to provide for subsidy review.* In October 1962 a company which proposed to construct a new floating dry dock at Montreal approached the Department of Public Works to obtain financial assistance under the Dry Docks Subsidies Act, R.S., c. 91. The Act provides that the Governor in Council may authorize the payment of a subsidy in respect of dry docks in the category contemplated, not exceeding $4\frac{1}{2}$ per cent per annum of the cost of the work, to a maximum of \$4 million, during a period not in excess of 35 years. On this basis the Department sought approval in principle from the Treasury Board to enter into an agreement to pay a subsidy of \$180,000 per annum if the private capital outlay was at least \$4 million.

The Board concurred with the Department's proposal on condition that the agreement provide that the subsidy be the subject of review at reasonable intervals, three to five years being mentioned. If these periodic reviews established that the net operating revenue, together with the subsidy, had resulted in a return in excess of 12% on the private capital investment, provision was to be made for a downward adjustment of the subsidy for the ensuing period.

The proposed dry dock could not qualify as a floating dry dock of the first class, as defined by the Dry Docks Subsidies Act, because it would not be capable of receiving and repairing therein "with ease and safety the largest ships or vessels of the British Navy existing at the time the contract is entered into". This impediment was, however, removed by Public Works Vote 132e, Appropriation Act No. 4, 1964, assented to on April 13, 1964, the text of which was:

Payment to Canadian Vickers Limited of a subsidy in respect of a dry dock in Montreal, Quebec, in accordance with the Dry Docks Subsidies Act, Chapter 91, R.S., as though it were a dry dock of the first class described by section 7 (a) of the Act \$1.

On April 28, 1964 the Department of Public Works reported to the Governor in Council that the Canadian Maritime Commission had been authorized to pay a subsidy of \$2,198,000 towards the cost of the dock under the Ship Construction Assistance Regulations and that this, when applied in reduction of the cost of the dry dock estimated by the

company at \$6,299,000, would reduce the company's investment to \$4,101,000. Accordingly authority was sought and obtained to enter into an agreement for the payment of an operating subsidy under the Dry Docks Subsidies Act of \$180,000 per annum for a period of 35 years.

The Department, however, failed to advise the Governor in Council of the condition imposed by the Treasury Board in 1962 whereby the subsidy should be reviewed at periodic intervals to determine whether net operating revenue, together with the subsidy, was resulting in a return in excess of 12% on the company's own investment, and this proviso was not included in the agreement signed by the Department with the company in June 1964.

The Department was asked for an explanation and we were informed that the Board's requirement had been inadvertently overlooked. In November 1965 the Department informed the company that, in the circumstances, there was no alternative but to amend the agreement by the inclusion of the necessary proviso.

Mr. HENDERSON: This note recites the circumstances under which a new floating dry dock received financial assistance under the Dry Dock Subsidies Act. This assistance will be continuing for a period of 35 years. It will be noted that through an oversight the department did not advise the Governor in Council of a condition imposed by the Treasury Board in 1962, whereby the subsidy would be reviewed at periodic intervals when it would be determined whether net operating revenue together with the subsidy was resulting in a return in excess of 12 per cent on the company's own investment. Consequently, this proviso was not included in the agreement signed with the company two years ago.

It is our understanding that the department has taken this matter up with the company since we drew it to their attention, and that a supplementary agreement has either been signed or is about to be signed by the company.

Mr. LALONDE: That is right, Mr. Chairman, I plead guilty on that one. It is an error of omission; we forgot about the 12 per cent, but I have now negotiated with the Canadian Nickers Company a new agreement which I have signed and which they are in the process of sending me back. We have both agreed on the terms of the agreement incorporating this 12 per cent.

Mr. BALLARD: The new agreement, then, does carry out the intent of the present act?

Mr. LALONDE: It does, Mr. Ballard.

Mr. BALLARD: It is 12 per cent?

Mr. LALONDE: It is exactly the same as if we had put it in the original agreement. The company has accepted the fact that the department made a mistake.

Mr. BALLARD: Is this agreement retroactive to the payment of the first subsidy?

Mr. LALONDE: That is right.

The CHAIRMAN: The next paragraph is 120.

120. *Cost of activating water supply system, Churchill, Man.* In 1960 a contract was placed by the Department of Public Works for the construction of an access road, an intake structure and supply lines to provide a water supply system at Churchill, which was completed in 1961 at a cost of \$932,000.

The construction of an intake pumphouse had been planned so that the supply lines could be activated shortly after their completion without lying dormant during the winter season. However, the contract for the pumphouse was not awarded until April 1962. It was scheduled for completion in October 1962 which date was eventually extended to November 1963 because of difficult excavation problems. It was completed by August 1963 at a cost of \$257,000.

The delay in proceeding with the construction of the pumphouse meant that the water supply system could not be placed in operation before the 1961 freeze-up. The lines were de-watered to prevent frost damage and a resident engineer from the firm of consultants retained for the project was authorized to remain at the site during the winter to ensure that air pressure was maintained to guard against water infiltration. Notwithstanding this precaution, a partial blockage caused by ice was encountered when the lines were tested in October 1962. Although the pumphouse contractor made preliminary efforts to clear the lines, the situation became more critical and in December 1962 the Department instructed the consulting engineers to take emergency action. It was not until the following November that all lines were activated.

In addition to their charges for consulting services in the construction of the water supply system, the consulting engineers claimed an additional \$141,000 for their services in freeing the lines and activating the system, and these claims for the most part were paid prior to March 31, 1965. The Department has taken the position that insufficient care was taken by the consultants to ensure that the lines remained water-free during the freezing period. The consulting engineers maintain that the basic cause of the mishap was that the supply lines were built considerably in advance of the pumphouse.

The consulting engineers have assumed \$10,000 of the cost without prejudice to their position.

Mr. HENDERSON: The circumstances of this case show how water infiltrated the supply lines of this system. The consulting engineers claimed an additional \$141,000 for their services in freeing the lines and activating it. The department took the position that insufficient care was taken by the consultants to ensure that the lines remained water-free during the freezing period. The engineers maintained that the basic cause of the mishap was that the supply lines were built considerably in advance of the pumphouse.

The outcome of this confrontation was that the department paid the engineers \$131,000.

The CHAIRMAN: There is room for thought here. Are there any questions? I think the department should give us their reasons why this was allowed to happen.

Mr. G. B. WILLIAMS (*Senior Assistant Deputy Minister, Department of Public Works*): Mr. Chairman, the particular water supply line is located at Churchill; it is about a six mile line running from the Churchill River down to the port and it runs through permafrost on the whole length. As we initially planned it, we entered into a contract to build an access road and a pipe line. This contract was awarded in 1960 and completed in November of 1961. The pipe line was planned on the basis that concurrent with it or shortly afterwards we would award a contract for the construction of a pumphouse. The intake line and the pumphouse are required to operate the pipe line because being in permafrost it is necessary to introduce a small amount of heated water through the pumphouse into the circulation in the pipe line. Our planning went awry in that we could not go ahead with the pumphouse as fast as we had anticipated, and so we were not able to introduce heated water into the pipe line for the winter of 1961-1962 when it was in the frozen ground.

At that stage, being in permafrost, it was necessary to protect the pipe line. If it became full of water and froze solid it would split. We made arrangements with the consultants who were on the job. They were not responsible for the delay in planning. There were two solutions: we could either fill it with antifreeze or else we could de-water and keep it under pressure. The second solution was taken and this action was followed. However, when we did get the pumphouse finished in 1963 and put it on line, we found the water line was blocked. We could not get circulation and we had to activate the pipeline. We engaged the consultants and the \$141,000 was the actual amount they spent on rentals, labour force and engineering force on the site activating that system.

In respect to this, while they were not responsible for the planning delay, we did put that pipeline in their charge during the period in which they were to have it de-watered and pressurized. Water did get into it. While it was a difficult task, they gave us the solution; they tried to protect it but we felt they were in that case negligent and so we assessed them \$10,000 against their fee.

The CHAIRMAN: So the resident engineer, who was an employee of the consultants, failed to keep the water out of the pipe line in the winter time and this caused damage to the pipe line to the extent of how much money.

Mr. WILLIAMS: The activation of it cost \$141,000. We are not able to say precisely how water did get in the pipe. The consultants said there were a number of ways it could have happened. They suggested that the contractor building the pumphouse, in his operations of hooking up and connecting up equipment, could have, by error, put a shot of water in the line in his test runs by the wrong valve being opened. It could have been infiltration during the period in which they had it under their control to keep water out of it; it could have been a sag in the line which occurred through settlement in one particular part of permafrost which thawed during the construction or as a result of the construction of the access road. There were many factors which could have created this difficulty. We were not able to say it was any one of them but, on the other hand, we did feel they had some responsibility and they had been negligent, at least to some extent.

The CHAIRMAN: Why did you continue to deal with that firm to free the lines and activate the system when, apparently, they had let you down in keeping it clear in the winter time?

Mr. WILLIAMS: They were on the site; they knew more about it than anyone else and to bring someone else in at that stage, we thought it would be an even more costly operation.

Mr. BIGG: Was there something urgent about this pipe line; were they trying to meet a deadline? It seems to me that if the pipe line froze up and they were not going to use it, they should have left it alone until spring.

Mr. WILLIAMS: It would never thaw, sir. It was in permafrost. It never does thaw.

Mr. BALLARD: Mr. Chairman, could I ask what would be the diameter of this pipe line?

Mr. WILLIAMS: The delivery line, I believe, was a ten inch.

Mr. BALLARD: Mr. Chairman, it seems to me that these people acknowledged guilt when they were agreeable to having a \$10,000 fine imposed on them. It seems to me that for a \$130,000 deal that \$10,000 is getting away pretty easy. They must have acknowledged guilt when they allowed the fine of \$10,000 and I think the department let them off a little easy by only assessing them \$10,000 on this kind of a job.

Mr. WILLIAMS: It was never a question of their acknowledging guilt; we refused to pay that much of the assessment; they are still objecting to it but have not taken any legal action against us.

Mr. BIGG: Is there no insurance for this kind of thing?

Mr. WILLIAMS: It is possible for consulting engineers and architects, as I understand it, to obtain, not disaster insurance, but they may insure against negligence on the part of their employees. They are not insurable against their judgment, but they are against negligence on the part of their employees.

The CHAIRMAN: Was this water line put in to supply water to a camp?

Mr. WILLIAMS: It was put in to supply Fort Churchill which is under the control of the federal government, the National Harbours Board installation at Churchill and also to the Canadian National Railways. There is a certain amount of the water which is available by stand pipes to the Indian village, the Eskimo village and some of it goes into the townsite at Churchill.

Mr. BIGG: And National Defence too?

Mr. WILLIAMS: Fort Churchill is now under the Department of Public Works, but at that time it was under National Defence.

The CHAIRMAN: That is closed now?

Mr. WILLIAMS: No, it is being operated by Public Works for Eskimo schools and facilities in the north.

Mr. NOBLE: Mr. Chairman, could I ask one question? Is this system working satisfactorily now?

Mr. WILLIAMS: Yes, sir.

The CHAIRMAN: Well, you paid \$141,000 to that firm after you had not had either good relationship or good business with them.

Mr. WILLIAMS: The \$141,000, sir, was the disbursement they made; most of it is made up of equipment rentals which they had to use to thaw the line,

welding units and this sort of thing. It was labour engaged on it as well as their on-site engineering crews, plumbers, steamfitters and everything else.

Mr. BALLARD: Mr. Chairman, does that figure of \$141,000 include any additional fees charged by the consultants?

Mr. WILLIAMS: No percentage fees to the engineers were charged.

The CHAIRMAN: Would the department, in future, look into and consider bond or insurance as Mr. Bigg mentioned in such a delicate operation as this?

Mr. WILLIAMS: We do have bonds, but it is a difficult thing to bond a consultant against professional judgment. We have had and we are looking into a new standard agreement; we have drafts and we have discussed them both architecturally and engineeringwise with the societies because they are covered by provincial legislation. We have looked into what sort of protection we can take. At this stage, by provincial act, the engineer-architect relationship is that they are responsible for negligence but not beyond this. As a matter of fact, continuing on the discussions of this Committee, we discussed it again at noon today, if we made it a contractual obligation that the consultant entered into, some kind of definite responsibility, protected by bond or insurance, but we are not sure that this would be permissible by the provincial acts. We certainly recognize the problem and intend to look further into it.

The CHAIRMAN: As we go along it certainly appears that the onus is going to have to be put on somebody other than the crown. In a lot of these undertakings it seems as though it is very easy to get money out of the crown and they take every opportunity to do so I think this Committee will likely recommend accordingly.

Mr. BIGG: I think there is negligence here. Because on this point of permafrost the consultants knew that any water entering the line would cause damage. It was not a question of the weather as at first I thought it might have been. It was their job to see that the lines remained water-free during the freezing period. Well, the freezing period is 24 hours a day, 365 days a year. Therefore, somebody must have left a valve open or else it was, as suggested, an act of God, a disaster or an earthquake which cracked the line and let water into the pipe. If it was one of these, that is why I suggested disaster insurance; I meant something apart from negligence, and if this is negligence then there should be insurance to protect the crown.

The CHAIRMAN: Next is 121.

121. *Additional costs due to inaccurate specifications.* In May 1962 the Department of Public Works awarded a contract in the amount of \$118,000 for dredging in the harbour at Sault Ste. Marie, Ont.

The pre-dredging boring program carried out by departmental engineers had shown no bedrock above grade, although it was stated that some occurred between grade and sub-grade. The contractor reported that he had encountered either very large boulders or extremely hard shelves of flat sandstone and as a consequence was obtaining little or no production and suffering more than average wear and tear on his equipment. Shortly afterwards the departmental district engineer informed the Department that contrary to the information provided by the pre-dredging borings, sweeping, sounding and inspection by divers had revealed substantial areas of bedrock above grade.

The contractor was paid an additional \$28,000 to cover loss of time and the additional wear and tear to which his equipment had been exposed while working in the bedrock area.

Mr. HENDERSON: In this case the pre-dredging, boring program was carried out by government engineers and showed no bedrock above grade. However, the contractor encountered either large boulders or extremely hard shelves of flat sandstone and suffered more than average wear and tear on his equipment. As a consequence, he was paid an additional \$28,000 to compensate him for this and for his loss of time.

The CHAIRMAN: Would the department like to offer some explanation here? The department's engineers are involved and it is a case of the pre-dredging boring program by the department.

Mr. MILLAR: Mr. Chairman, in the first place I would like to say that the borings were not taken by consultants; they were taken by our own boring branch. I state this because we have the same trouble in our own borings as we find with consultants.

The area to be dredged was approximately 3,500 feet long and 700 feet wide. On this huge area there were bumps which could be located and were specified either as class B or class A. Class A are boulders above two cubic yards. These had to be taken out in certain manner. There was also in this area, another area about 2,400 feet long and 400 feet wide, in which we took borings on lines every 100 feet, on grades, every 100 feet either way there was a boring. On all these borings there was only one that showed rock in the sub-grade. The sub-grade is a foot below the grade where the contractor is paid if he takes it out and he is not paid if he does not, and it does not matter because we have the grade; that is the leeway. So out of 125 borings not one showed rock above the grade, and as it turned out, there was considerable rock.

Mr. BIGG: Mr. Chairman, could our contract not read that it would be automatic for the man to get paid and not to have to come begging; if in fact the stuff taken out of the bed is according to the tests, that he gets paid at a certain rate, and with our inspectors on the job it would surely be simple to determine whether he is moving four feet of bedrock instead of clay. He can see the stuff coming up with the dredge and mark a chart as it is found, and automatically pay the contractor a 25 per cent bonus accordingly.

Mr. MILLAR: Some contracts are called that way—to rock—and we give another contract. That is not done often but it has been done.

The CHAIRMAN: May I ask why you did this boring yourself and in a lot of these other cases you have hired professionals or outside boring firms to do it?

Mr. MILLAR: The department maintains a boring branch and I would say that it does about one third of the borings required on these jobs, and the rest is done by consultants.

The CHAIRMAN: Where do you keep this boring staff and equipment?

Mr. MILLAR: It is administered through headquarters in Ottawa.

The CHAIRMAN: Is your equipment scattered around the country or is it in Ottawa?

Mr. MILLAR: It is never here. It goes from place to place with the crews. But it is based in Ottawa. In the districts we have smaller equipment, what we

call x-ray borings, but in a major job like this it is either by the test boring branch of the department or by the consultants equipped to do the job.

Mr. BIGG: I would like to say also that it would not take a very large amount of rock actually to cause this \$28,000 increase. It seems to me it is a fairly expensive thing, when they run into bedrock under water, to move it.

Mr. MILLAR: The rock is very much more expensive but this extra payment is not to take out the rock. This is for the trouble that the contractor had in getting the other material out. He had to scrape over bedrock, broken rock, for about two months before we were satisfied that it was rock. I believe, in this case, it is not rock as in Class A. Soft material is not delineated by a clear-cut line. Over the solid rock there is a layer of weathered rock which may or may not be taken out by the contractor's equipment but our borings do not show it. The bore hole goes through it and everything that comes out is broken up. It is only later when we get into the solid rock that we get a core. So we show solid rock at a certain elevation and the dredge may not be able to take it out two feet above that elevation.

Mr. BIGG: The point I was trying to make was that in my opinion it would not have to be a very extensive area to cause considerable added expense if you ran into trouble. In other words, it was not a half a square mile they were digging in, it may be in a very limited area, but there was a great deal of delay because of a feature they did not see in the drilling. Is that right?

Mr. MILLAR: That is right.

Mr. NOBLE: Mr. Chairman, as I understand it this dredging was for a distance of 3,500 feet. Is that right?

Mr. MILLAR: It covered an area about 3,500 feet long and about 700 feet wide.

● (4:31 p.m.)

Mr. NOBLE: The point I am getting at, Mr. Chairman, is that there were 125 borings made. Is that right?

Mr. MILLAR: I gave this figure, but I do not know the exact number. I saw the plan and they are on a hundred foot grid and the last line is on a 50 foot grid—every 50 feet for two lines—so there must be about 5 per line. There was a considerable amount of boring.

Mr. NOBLE: Mr. Chairman, it seems to me that the department were a little negligent here because if they did this much boring I think they could have come up with pretty well what was down there and the man would have known before he started the job what he was up against. I do not know how you go about these borings. You said you run two lines down this channel, two lines of borings. The dredging area is lengthwise.

Mr. MILLAR: No. The dredging area is lengthwise. There were lines running across the dredging area every 100 feet and on these lines every 100 feet there was a boring. The contractor, A. B. MacLean, is from Sault Ste. Marie, and they have been working there at this type of work for at least 35 years.

Mr. NOBLE: Of course, I do not understand about your boring but I was making an estimate of 125 borings in 3,500 feet. Every 28 feet you would have a hole. That is, if you went the length.

Mr. MILLAR: There were two areas. One was contained within the other one. The 3,500 feet was the whole area where there were some little bumps here and there; but within this area there was another area which was about 2,400 feet, in fact there were two areas, but I put them as 2,400 by 400.

The CHAIRMAN: Are there any more questions? I would like to have Mr. Lalonde's idea on why the department bothers with keeping a boring department to do their own testings and borings. Why do you not hire it all out and be money in pocket and save all this trouble?

Mr. LALONDE: That is just the point, Mr. Chairman. I do not think we would be money in pocket because we have to do a number of small jobs constantly, not the whole year round on the east coast, but there are areas where you can work throughout the year. These people are available. If we were to go out to contract every time we need some borings taken it would be a lot more costly. Of course, there are times when we use this unit on larger projects because they are there and they are available and they are not otherwise busy. We try to get full value out of them without building the unit so much that we do not use outside arms either. It is a question of balance. I think that it would not have made one iota of difference if we had used an outside firm to take these borings, because the technique would have been exactly the same.

The CHAIRMAN: Then you feel that you can operate your own boring department as cheaply as if you contracted it out?

Mr. LALONDE: Within that balance that I am talking about of having to consider small projects as well as large ones. If we did not have any small projects probably we would not need to have our own unit. But we will always have some of those.

The CHAIRMAN: What staff would you have in the boring department?

Mr. LALONDE: About 30, including all the operators.

The CHAIRMAN: The next paragraph is 122.

122. *Continuing federal assistance to intra-provincial ferry services.* In our 1963 Report attention was drawn to the continuing federal subsidization of ferry landing facilities for provincial governments despite the general policy of the Department of Public Works and the Treasury Board over many years to regard such facilities at either end of a ferry service linking an intra-provincial highway as the exclusive responsibility of the province concerned.

The cases described at that time dealt with major wharf improvements in the lower St. Lawrence area, namely at Les Éboulements for the ferry service to Îles aux Coudres and the construction of terminal facilities at Matane for the ferry service to Godbout. In the latter case the Treasury Board withheld its approval of the contract because it was felt exception should not be made to the general policy regarding facilities for intra-provincial ferry operations. Eventually, however, "since some commitment had been given to the private interests, on which basis they undertook substantial commitments related to the acquisition of a vessel and the construction of the Godbout terminal", the Board reluctantly approved proceeding with the Matane project which was completed at a cost of \$172,000.

Construction of the Matane terminal and dredging at Godbout were undertaken at that time on the understanding that the ferry operator would construct the Godbout terminal and acquire and operate the ferry without further federal assistance. Notwithstanding this, Executive authority was granted in August 1963 for entry into a three-year subsidy agreement.

In 1963 the Department of Public Works was requested by the private owners to purchase the Godbout terminal on the grounds that the facilities at both ends of other ferry services in the lower St. Lawrence River area had been provided at federal expense. Specific provision was made for the purchase in Vote 30 of the Department's 1964-65 Main Estimates and the purchase was approved by the Treasury Board in July 1964 at a cost of \$268,000.

This acquisition has now brought to six the number of locations where the federal Government has provided terminals at both ends of cross-river ferry services in the lower St. Lawrence River. The total expenditure over the years for these terminals, which in some cases form part of shipping wharves, had exceeded \$7 million at March 31, 1965.

Mr. HENDERSON: This has to do with continuing federal assistance to intra-provincial ferry services. The problem dealt with here is one on which this Committee could make perhaps a considered recommendation to the House which might conceivably be of help to the government department concerned.

Now, three years ago, I referred in my report to the House to the continuing federal subsidization of ferry landing facilities for provincial governments, despite the general policy of the Department of Public Works and the Treasury Board over many years to regard such facilities at either end of a ferry service linking an intra-provincial highway as the exclusive responsibility of the province concerned.

It will be seen here, how in 1963 the Department of Public Works was asked by the private owners to purchase the Godbout Terminal on the grounds that facilities at both ends of other ferry services in the lower St. Lawrence River area had been provided at federal expense. In due course this purchase was approved by the Treasury Board.

This particular acquisition has brought to six the number of locations where the federal government has provided terminals at both ends of cross-river ferry services in this area. It will interest you to know that the total expenditure over the years for these terminals which in some cases form part of shipping wharves, has exceeded \$7 million at the close of 1965.

I imagine Mr. Lalonde will have something to add to this situation for the information of the members.

Mr. WILLIAMS: Mr. Chairman, within the department and arising in part, at least, from the recommendations of this Committee, an interdepartmental committee was set up between the Department of Transport, Finance, Canadian Maritime Commission and Public Works and they prepared a report to cabinet again stressing the point that these intra-provincial ferries should be considered as part of the highway system and that the government should avoid being involved in them.

We were pushed into the situation at Godbout, as Mr. Henderson has reported, on the basis of the previous five arrangements which had been made

where both sides of the ferry terminals had been paid for by the federal government. The interdepartmental committee report referred to the fact that there were six in existence and the report was submitted to cabinet and the policy statement has been given to all departments that where it is an intra-provincial ferry, where there is a revenue and where it is not totally self-supporting the province would be expected to contribute to both the operations of the ferry and the terminal facilities, and in most cases entirely pay for them.

No department will act independently in one of these. They will all be referred to this interdepartmental committee.

The CHAIRMAN: It sounds as if it is under better control.

123. *Contribution due for ice control structure, Montreal.* Ice jams have always been a serious problem in the St. Lawrence River between Lake St. Peter and the Montreal harbour. It was foreseen that creation of the site for Expo '67 in this area would intensify this problem. Since icebreaking capacity sufficient to guarantee an open river throughout the winter could not be assured, an interdepartmental committee decided in 1963 that an additional safeguard should be provided in the form of an ice control structure to provide protection to the Exhibition site and to assist in controlling the ice conditions in the area. It was announced early in 1964 that the estimated cost of the structure would be \$12.5 million. It is now expected to cost approximately \$15.5 million.

Following a meeting held with the City of Montreal in July 1963, a document was signed by the three federal Ministers concerned and the Mayor of Montreal, which among other things recorded the City's agreement to make a contribution of \$2.5 million toward the cost of the project.

It was May 1964 before legal officers of the Department of Public Works and the City of Montreal met to work out the details of an agreement to provide for this contribution by the City. The departmental legal officers, however, expressed doubts as to the legal capacity of the City to enter into the project without provincial legislation. As a consequence it was not until June 1965 that an opinion was obtained to the effect that the City would be so empowered, subject to the passing of an enabling by-law by the City Council.

The agreement has not yet been signed. Meanwhile, construction has proceeded and the project is due for completion by July 1966. Federal government progress payments to the contractors and engineers up to March 31, 1965 totalled \$5,983,000 and have been advanced without any contribution so far by the City of Montreal under its 1963 undertaking.

The Department advised us in November 1965 that the resolution of the problem is imminent.

Mr. HENDERSON: This has to do with contributions used for the ice control structure at Montreal. While the agreement referred to here had not been signed nor had any payment been made by the city of Montreal by the time my 1965 report went to the printer, I understand that the city of Montreal paid its contribution of \$2.5 million toward the cost of this project on January 11 of this year.

It will be noted from the first paragraph that it was announced early in 1964 that the estimated cost of this structure would be \$12.5 million. We now understand that the revised estimated cost is to the order of \$16.3 million.

Perhaps Mr. Lalonde or Mr. Williams will have something to add to this.

MR. BALLARD: I may have missed some of the conversation or some of the instruction given but I was wondering if this is an isolated case of a continuing subsidy. We are studying the 1965 report. To the knowledge of the Public Works Department, have there been any more isolated cases since that time, even in the current year?

MR. WILLIAMS: There have not been any that we have contributed to; there have been requests but there have been none that we have contributed to since that Godbout situation.

MR. HENDERSON: I would like to ask Mr. Smith if he has heard of any further developments on this.

MR. SMITH: No, I have not sir.

MR. HENDERSON: I must say, from the statement made by Mr. Williams, that it does look as though every effort is being made to hold the line and perhaps the investment of \$7 million to March 31, 1965, will be the same when I come to report next year.

MR. BIGG: With respect to intra-provincial and inter-provincial, is there a different policy where the ferries operate between two different provinces?

MR. WILLIAMS: There are situations where the federal government does make contributions to inter-provincial ferries.

MR. BIGG: Between two different provinces?

MR. WILLIAMS: That is correct. The P.E.I. ferry service, for example.

MR. BIGG: How about international, between here and the states?

MR. WILLIAMS: Yes, there have been—

An hon. MEMBER: How about Sault Ste. Marie?

MR. WILLIAMS: No, they are self-sustaining; as far as I know there has been no contribution there.

There is a federal interest but not necessarily a contribution. That is a control function and an approval function.

MR. HENDERSON: We had a situation on the Pelee Island ferry which appears in my report and I do not think it comes under the heading of the Department of Public Works. I may be wrong but I know that the member of the House from that part of the country telephoned me to make the point that this was an international ferry and, therefore, fully justified to have federal support. The federal government had been seeking to get that support from the province of Ontario. Each year when the subsidy comes up it is said to be the last payment.

MR. BIGG: How about the ferry between Nova Scotia and Newfoundland?

MR. HENDERSON: That would be strictly inter-provincial.

MR. WILLIAMS: There is subsidy on that as I understand it, but it is a matter for the Department of Transport rather than ourselves.

Mr. HENDERSON: We will come to that note, I think, further on in the report.

Mr. WILLIAMS: I would like to mention though sir, that there are other isolated cases where there is a subsidy just as there are isolated cases where the federal government has participated in an interprovincial bridge. I cannot recall too many of them but I do know that there are several interprovincial bridges here but not ferries. There is a case at Kingston where we do provide a dock which is used by the ferry service that goes international at Kingston.

Mr. NOBLE: Mr. Chairman, does the Tobermory South Bay ferry come under this jurisdiction?

Mr. WILLIAMS: It is provincial, I believe. There are cases where, and some of the six that we have dealt with on the St. Lawrence, initially became ferry terminals because they were shipping wharf terminals and they gradually developed into a ferry boat terminal rather than a freight shipment terminal. That is the historic context in which the government was involved.

Mr. BALLARD: Mr. Chairman, I assume that in this particular case that the Department of Public Works recommended that they not contribute to this ferry terminal but they were overruled eventually by the Treasury Board. Is this correct?

Mr. WILLIAMS: I do not think you should say that we were overruled by the Treasury Board. Matters are presented to the Treasury Board for decision, but they usually are the result of representations outside the board.

Mr. BALLARD: You do not have to say that you were overruled, but I would say that you were overruled. The question I am coming to is this. I suppose, in view of the fact that this has happened in this particular case, if there were another submission made which you would not agree to, you could again be overruled by the Treasury Board?

Mr. WILLIAMS: The government are the executives and can decide to do what they wish, as I see it, in matters of government policy and spending. The point I made previously in referring to it is the fact that the matter was referred to cabinet, and they have directed that in each case the matter must be directed to an interdepartmental committee in the terms of their recommendation which was that the federal government should not or should try and stay out of this intraprovincial ferry operation. So Treasury Board will be guided by the recommendations of this committee and what they will permit to stand in estimates or not stand in estimates.

Mr. BALLARD: I would like to direct a question to the Auditor General. How can we, as a Committee, prevent this sort of thing from happening again? How can this Committee prevent it?

Mr. HENDERSON: I think, Mr. Ballard, by doing what you are doing now, by asking questions and if you do not get satisfactory answers send for the people who can answer them. It says right here that the Treasury Board did, in fact, withhold its approval of the contract because it felt that an exception should not be made to this general policy. Eventually, however, and here we quote the Treasury Board's own statement:

Since some commitment had been given to the private interests on which basis they undertook substantial commitments related to the

acquisition of a vessel and the construction of the Godbout terminal the Board reluctantly approved proceeding with the Matane project which was completed at a cost of \$172,000.

Mr. TARDIF: Can you tell me, sir, what "commitment had been given to the private interests"?

Mr. HENDERSON: I do not know if that information is available in the files of the Department of Public Works. Would you be aware of that, Mr. Williams?

Mr. WILLIAMS: I do not know what commitment had been given.

Mr. TARDIF: Could we find out what commitment, in fact, had been given to the private interests?

Mr. L. P. BOYLE (*Former Financial Adviser, Department of Public Works*): I think the submission from which you cite was related to the Matane contribution in the earlier year in which the Treasury Board reluctantly approved the contribution to Matane on the basis that the private entrepreneurs had made commitments in Matane-Godbout. The reluctant approval was related to the earlier case at Matane, I think.

Mr. HENDERSON: In that case, Mr. Ballard, we will have to find out what the facts are and report at the next meeting, if we may. We will ascertain that for you.

Mr. BALLARD: I wish you would.

Mr. BIGG: I think I can understand the reluctance of the federal department to pay for intra-provincial works because we would be accused of interfering if we started deciding what type of facilities they are going to have on an intra-provincial highway. I strongly urge that we do not interfere in these matters where we have no control over what happens when we spend money on these facilities. We would be accused of interference.

The CHAIRMAN: When Mr. Ballard gets that information and when Treasury Board is before us, we will keep this one in mind.

Are we ready for paragraph 123.

Mr. HENDERSON: We were dealing with the ice control structure in Montreal and I had indicated that the city of Montreal had paid its contribution since my report was issued. I understand the revised estimated cost at the present time is to the order of \$16.3 million rather than \$12.5 million as referred to here. Would that be correct?

Mr. LALONDE: That is correct, Mr. Henderson.

Mr. MILLAR: The only thing I can add to explain the increased cost is, apart from the increased costs that have occurred in the past two years, especially in Montreal that we had to compete for steel and had a tight schedule, the job had to be done all by floating plant. It is the first ice dam ever built in the world, as far as I know.

Mr. HENDERSON: May I ask a question of the witness?

The CHAIRMAN: Yes.

Mr. HENDERSON: Is this ice control structure primarily for Expo '67?

Mr. LALONDE: No. It does protect the Expo '67 site but at the same time it protects the national harbour and harbour works in Montreal and parts of

Montreal that would be flooded at the same time if ice jammed in certain places.

Mr. BALLARD: Mr. Chairman, I wonder if you could tell me the nature of the control. Is it a type of coffer dam, or something like that?

Mr. MILLAR: It is like a stone gate dam except that the gates are very shallow; they are only six feet high and they float on the water. They float four feet in and two feet out, and they hold the ice.

Mr. BALLARD: One other question: I notice the last paragraph says the department advises that settlement of this thing is imminent.

Mr. LALONDE: The money has been paid.

Mr. HENDERSON: I thought I mentioned that. It was paid on January 11, 1966.

Mr. LALONDE: What happened about the payment was that there was quite a bit of controversy as to what was the legal approach to the agreement to be signed with the city of Montreal; whether it came within the purview of their authority to make a special bylaw or whether they should have a legislative authority specifically for that purpose. Finally, after arguing about this for about a year, the lawyers agreed that the city could make its own bylaw; they did and we received the cheque and it has been banked.

The CHAIRMAN: There is one part which says: "The agreement has not yet been signed; meanwhile construction has proceeded". This is not customary procedure for the department, I suppose. It is an unusual situation?

Mr. LALONDE: That was partly because we wanted to have this available before Expo '67. We were very confident that once the question of procedure had been resolved, the city would not renege on its letters. Because there was an exchange of letters, forming the basis of the legal agreement.

Mr. MILLAR: Although the works are not quite completed, the dam was operated last winter quite successfully and has, I believe, done some good, but with the water being so low, the conditions were not as bad as they could have been.

The CHAIRMAN: We are confronted with a \$16 million expenditure and I repeat, \$16 million expenditure, for an ice control structure for the Expo '67 site because it is in that particular location. We must keep this in mind as cost of the site of Expo. If it were inland, this \$16 million would not have been necessary.

Mr. LALONDE: Well, that is debatable. What value will come from that structure for the operation of the Montreal harbour is something that has been uppermost in the mind of the planners right from the beginning. I think the target date was incidental in that it happened to come at the time when Expo was being held there. Certainly the greatest value will be for future operations of the harbour, not for Expo.

Mr. MILLAR: Already this year the Montreal National Harbour Board have used the upper harbour this winter for winter navigation; prior to this past winter, they only used the downstream harbour.

The CHAIRMAN: Well, the fact that the city of Montreal are paying that much money indicates there must be some value to the city.

All right, the next one.

142. *Non-productive payments.* Since 1961 there has been included in the Auditor General's annual Report to Parliament at the request of the Public Accounts Committee a listing of the non-productive payments which came to our notice in the course of our audit.

After considering the listings of the non-productive payments that were included in the 1962 and 1963 Reports, the Committee in its Sixth Report 1964, tabled in the House on October 20, 1964, expressing concern at the increasing number which were being noted and went on to state:

Since the majority of these cases involved expenditure by three departments, namely Public Works, National Defence and Transport, members of the Committee questioned the deputy ministers of these three departments closely as to the causes and reasons of many of the larger losses. A number of these losses arose from circumstances beyond the control of the department named, for example Public Works in its role as a service department.

The Committee is of the opinion that the majority of these losses must be attributed either to failure to exercise normal commercial prudence in entering into contractual obligations or to lack of effective departmental specifications, organization or co-ordination. It also believes that failure by departments to pinpoint blame for many such losses and to take corrective action accordingly is a contributing factor.

The Committee reiterates the request it made to the Auditor General in 1961 concerning this type of loss, namely that in his future annual reports to the House of Commons the Auditor General continue to include listings of all non-productive payments coming to his notice in the course of his audit.

In our 1964 Report which, as stated in paragraph 4 of this Report, has not yet been referred to the Public Accounts Committee, 35 cases of non-productive expenditures were listed in Appendix 2. These, together with 2 other examples of non-productive expenditures noted and commented upon under Comments on Expenditure and Revenue Transactions, involved an estimated \$2,089,000.

In view of the comments of the Public Accounts Committee quoted above, the Audit Office has endeavoured this year to pinpoint more closely the underlying reasons for this type of cost, particularly where the circumstances of the non-productive payment appeared to have been beyond the control of the department or agency against whose appropriation it was charged. We believe this should enable closer study to be given to the individual cases both by those responsible and by the members of the House and the Public Accounts Committee.

The non-productive payments listed by the Audit Office each year are those payments coming to the notice of the Auditor General in the course of his audit. It is important to understand that many of them have their origin in transactions commenced in prior years and that they come to notice only when final settlement is made during the year under audit.

In this Report we have dealt with 37 cases of non-productive payments estimated at \$22,737,000. Of these, 21 are included in the foregoing paragraphs while the remaining 16 cases are as follows:

8. Additional cost due to delay in awarding contract, Banff-Jasper highway.—In 1961 the Department of Public Works obtained tenders for the construction of a bridge on the Banff-Jasper Highway for the Department of Northern Affairs and National Resources. Although the tenders were opened on September 19th there was a delay of two months before a contract was awarded to the lowest tenderer, whose bid of \$254,000 was \$30,000 less than that of the second low bidder. In addition to the delay caused by the normal procedure of checking the successful tenderer's design and communicating with him in that regard, there was a further delay while contracts generally were reviewed to see which ones could be deferred. Subsequently the contractor, who lost money on the project, presented a claim for extra expenses incurred because of the delay in the placing of the contract. His contention was that wet autumn weather, followed by an extremely cold period, had forced him to produce concrete aggregates from frozen material under much more costly conditions than would have been the case if the work had been performed in early autumn. During the year he was paid \$20,000 in partial compensation for additional costs which he attributed to the delay. In authorizing payment of this claim, the Treasury Board made an exception to its policy of not accepting claims based on the delay in the award of a contract.
9. Additional costs due to construction delay, Pointe-au-Père, Que.—In March 1964 the Department of Public Works awarded contracts for the improvement of facilities at Pointe-au-Père and Baie Comeau in connection with the operation of a ferry service between the two communities. Shortly afterwards the operators of the ferry expressed concern that both terminals were to be reconstructed during the season of heaviest traffic because this would interfere seriously with the maintenance of their schedule. The conclusion was reached that the only acceptable procedure that would ensure the continued operation of the ferry would be to delay the Pointe-au-Père project for approximately three months. The contractor agreed on condition that he be reimbursed for additional costs incurred as a result of the delay. During the year he was paid \$14,938 in settlement of his claim.
10. Additional cost due to construction delay in Clarendville, Nfld.—The Department of Public Works awarded a contract in 1963 for the construction of the main haulout section for a marine dry dock facility at Clarendville required by the Department of Transport. One phase of the contract involved the dredging of an area to accommodate the underwater track, including the excavation of some bedrock. Borings had previously been taken at the site of the work but not at its outer end because a projection of the dip of the rock, as indicated by the borings in the inner area, showed the top surface of the rock passing below the maximum dredged depth

required. As excavation proceeded, however, bedrock was encountered at the outer end which necessitated a change in the contractor's method of operation and delayed progress of the work. This resulted in a decision to close down the undertaking for the winter months of 1963-64 because of the effect of the delay on other phases. During the year the contractor was paid \$12,909 to compensate him for additional costs incurred due to the delay and the closing down and reopening of the work.

11. Cost of remedial work during construction period, Ottawa.—The contractor for the construction of the Trade and Commerce Building went into bankruptcy in 1957 and a contract for completion of the work was awarded to another company. Where possible, new agreements were negotiated with the sub-contractors of the bankrupt company. The original electrical sub-contractor undertook to proceed and the Department of Public Works agreed that if it was found necessary to replace or rehabilitate material or equipment "beyond that normally experienced on a project of this size and duration", such work would be carried out under the direction of the general contractor on a job work order basis. In 1958 the sub-contractor presented a claim for extra costs, including an amount for the rehabilitation of elements of his work after the post-bankruptcy shutdown. Until 1964 the Department resisted the claim, taking the view that the commitment with regard to rehabilitation costs was intended to apply only to a case where the sub-contractor had taken all reasonable precautions to protect his work and, despite this, corrective measures were required. In that year, however, the conclusion was reached that certain remedial costs stemming from condensation and other moisture conditions in the building during the shut-down period, at which stage it was not weatherproof, could be recognized and \$12,190 was paid to the sub-contractor.
12. Additional cost due to construction delay, Calgary, Alta.—In 1958 the Department of Public Works awarded a contract for the construction of a postal terminal building at Calgary. During the year a settlement of \$8,150 was made with the contractor—in respect of a much larger claim—for reimbursement of additional costs resulting from a number of delays. The major part of the claim centered around the fact that the details of the mail handling equipment had not been finalized prior to the commencement of building construction. The late award of the separate equipment contract did not permit the building contractor to complete his work in certain areas as expeditiously as planned, with the result that site overhead costs were abnormal.
13. Cost resulting from discrepancy in specifications, Matapedia, Que.—In October 1963 a contract was awarded by the Department of Public Works for repairs to a bridge at Matapedia. Because of the age of the bridge special bearing pads were required to reduce the residual stresses on the bridge members. The Department's specifications for the work required that pads of a certain grade be used, but also required that the pads comply with the requirements for such

pads appearing in a publication which contained standard specifications for highway bridges. As the departmental requirement was at variance with that contained in the publication, a situation developed which led to a delay of several weeks in the procurement of the proper pads. The delay forced a temporary shut-down of the work and extension into colder weather at extra cost to the contractor. In December 1964 he accepted a payment of \$7,622 in settlement of a larger claim for costs arising from the discrepancy in the specifications.

14. Additional cost due to construction delay Ottawa—During the construction of the foundation work for an administration building for the Department of Agriculture, difficulties were encountered in the initial pile driving operations. The investigation and redesign which were required resulted in a succession of notices of change to the contractor over a period of several weeks. His planned schedule was disrupted and delayed by this circumstance as well as by the testing of the piles previously driven. During the year he was allowed \$5,324 in recognition of the fact that his supervisory staff and key operating personnel had been unable to work at full capacity during the redesign period.
15. Court award to architect in respect of abandoned works, St. John's, Nfld.—In 1954 an architect was engaged by the Department of Public Works in connection with a proposed postal terminal building at St. John's. After he had submitted preliminary plans for approval and had proceeded with the preparation of working drawings, it was decided that he should work in association with another architect. Subsequently he presented a claim to the Department for work done to that point, stating that changes in requirements and ideas were so extensive that it had been necessary to abandon the early results of his undertaking. The Department resisted the claim but in 1964 he was awarded \$4,147, with costs, in the Exchequer Court of Canada in respect of the abandoned work.

Mr. HENDERSON: Now we jump to paragraph 142 where some remaining non-productive cases are shown, and we will deal with the few remaining relating to the Department of Public Works.

The first of these is No. 8, additional cost due to delay in awarding contracts on the Banff-Jasper highway. It is the practice of the department to advise successful bidders within 60 days of the opening of the tenders and then to enter into the contract with the successful tenderer. In this case the department did extend the 60 day period slightly and in due course the successful tenderer claimed for extra expenses because of the delay in placing the contract. He did this because of wet autumn weather followed by an extremely cold period which forced him to produce concrete aggregates from frozen material under more costly conditions than otherwise would have been the case. The department acknowledged his claim and the successful bidder was paid \$20,000 in partial compensation for the additional costs he attributed to his delay.

The CHAIRMAN: Are there any questions?

Mr. BALLARD: Who was the contractor, Mr. Chairman?

Mr. LALONDE: Crawley and Mohr Limited.

Mr. BIGG: Mr. Chairman, this seems to me to be an instance where improvements could be made in drafting government contracts. Instead of paying one fellow and turning down another, it seems to me that a clause could well be inserted covering delays caused by delays in awarding the contract and an adjustment made accordingly. The contractor could then come to us with a legitimate case against the crown instead of begging. I am sure that they keep these delays down to a minimum but I am in sympathy with the contractor here, in this case.

The CHAIRMAN: I notice that it states that the Treasury Board made an exception to its policy in this case. Are there any comments on that from the department?

● (4.56 p.m.)

Mr. LALONDE: I beg your pardon?

The CHAIRMAN: The Treasury Board made an exception to its policy of not accepting claims based on the delay in the award of a contract.

Mr. LALONDE: We, rightly or wrongly, have worked on a period of 60 days in which to accept contracts. Many contractors claim this is too long a period by today's standards to keep a bid alive. We have to check the bid very thoroughly, especially on the larger contracts. Because we have to go to Treasury Board, where quite often there are protracted discussions and negotiations between the Treasury Board and ourselves. We would find it difficult to stay within a 30 day period which is the normal period of acceptance of bids in construction industry outside the government. When you go beyond the 60 day period, it is because there are certain specific difficulties and this was the case here. The bid was submitted on an alternative. There were two alternatives, it could be done this way or that way. This had to be weighed because the prices varied between the two alternatives, and then there was the recommendation made to the Treasury Board on one alternative and it took longer than we had expected to award the contract and we fell outside the 60 day period. The contractor could have refused the contract by saying: "You are outside my period of bidding" or "my period of tender so I will not take it at that price" and then negotiate an adjusted price, but he accepted the contract at that price. Admittedly he suffered a damage because it took him through another period of construction.

Mr. BIGG: Yes; I agree that when a man has to get his work force for, say, putting in piles on ice and he knows he can do it 20 per cent cheaper by getting the men on when the ice is still in the river, if the government is responsible for the delay it puts him off until the ice leaves the river and then he has to do it by boat or a more expensive way. I say that where the government is obviously responsible we should pick up the tab. If you can write this into the contract, so much the better.

The CHAIRMAN: Mr. Bigg, in this case, the contractor accepted the contract knowing that he would be delayed and then the department turned around and paid him \$20,000.

Mr. BIGG: Then it is the other way around. I think that he knows what he is up against—

The CHAIRMAN: That is why it is a non-productive account.

Mr. BIGG: I do not like the idea of a contractor taking on the contract and then saying the benevolent government will bail me out later.

The CHAIRMAN: Why did you pay this fellow \$20,000? Is money that easy to get in your department?

Mr. LALONDE: No. Usually when there is a difference of opinion you know who wins. There was a difference of opinion between the Minister and the Deputy Minister in this case. I felt that he had accepted the contract; the Minister felt otherwise; that we had caused him an injustice and caused him some damage. He put it up to the Treasury Board and the Treasury Board approved it.

The CHAIRMAN: I think we had better call the Minister.

Mr. BIGG: The difficulty here is that the contractor might have accepted \$10,000 deaner and finished the contract without another claim. We would then be \$10,000 ahead.

The CHAIRMAN: No. The point is, Mr. Bigg, that the contractor accepted the contract knowing it was late; knowing all about the circumstances and he said: "I will do the work, I will proceed and carry out the contract" and then he comes back and asks for \$20,000 and they pay him.

Mr. BIGG: I am inclined to make him hold to his contract.

The CHAIRMAN: Why, certainly, a contract is a contract.

Mr. NOBLE: Mr. Chairman, it seems to me that this fellow took advantage of the fact that he knew what the next contract price was, so he was going to recoup a little and he says: "Well, all right, I will take \$20,000 more and we will call it square". That is what it looks like.

Mr. BIGG: I am not going behind the motives, but I think that if we spelled these things out, the government would not be in a position where they had to be benevolent. We should make it abundantly clear that the cut-off date is the 1st of November and whether or not he gets in there a few days ahead or not if he is on the job by the 1st of November he knows exactly how much he is going to get.

The CHAIRMAN: Mr. Lalonde, I understood you to say that you recommended that the \$20,000 not be paid?

Mr. LALONDE: That is right.

The CHAIRMAN: That clears you, sir.

Mr. LALONDE: In writing,

The CHAIRMAN: In writing. I would like to pursue it from there.

Mr. BALLARD: Mr. Chairman, could I ask the department then if there was a completion date specified in the contract? If so, what was that date?

Mr. HENDERSON: This is the recommendation to the Treasury Board for the \$20,000 to be paid, signed by the department.

The CHAIRMAN: Would that be signed by the Minister?

Mr. HENDERSON: Yes, in this case it was signed by the Minister, Mr. Chairman.

Mr. BIGG: Is there any logical reason given or does it say they accept responsibility for the delay?

Mr. HENDERSON: It describes the contract. It says:

"To provide funds for payment of a claim submitted by the contractor for extra expenses as detailed below" and under the "remarks" heading it says: "The contractors have presented a claim in which they state that the performance of the work under this contract has cost them more than \$54,000 over the tender price. They have indicated that in the preparation of their tender an error of calculation was made amounting to \$20,000. They have, therefore, requested payment for their additional expenditure of \$34,000 resulting from the increased cost caused by delay in the award of the contract. Under the conditions of the contract entered into with Crawley and More, the department is not obliged to honour the claim although there was a delay of two months in awarding the contract. The tenders were opened September 19 and the contract awarded November 22. This was at the time when all contracts were being reviewed to see which ones could be deferred. Part of the delay in recommending acceptance of the contractors tender to the board on October 14, 1961, was taken up in the normal procedure of checking the contractor's design and writing to them to obtain confirmation. Despite the delay the contractors entered into the contract without formal protest although in a subsequent letter they stated quote: On the subject of withdrawal we were not aware that we would be permitted to do this without forfeiting our security.

It should be emphasized, however, that the delay occurred at the most crucial time in the construction season. In order to complete the substructure on schedule the contractors were forced by the wet fall weather, followed by an extremely cold period, to produce concrete aggregates from frozen materials under much more costly conditions that might have been anticipated had this work been performed in early fall.

Because of the delay in the award of the contract, the contractors would have been within their rights had they refused to enter into the contract in which event the department would have been obliged to recommend the award of this contract to the second lowest bidder for the tender price of \$284,189. Because Crawley and More agreed to enter into the contract, the department was able to have the work performed for \$30,434 less than the tender price of the second low bidder.

As the work under this contract has been completed satisfactorily, the department request that the board consider for approval the payment of an additional \$20,000 as a matter of partial relief to the contractors for losses suffered in undertaking the work."

The authority is Treasury Board Minute 588241, dated November 9, 1961.

Mr. BIGG: I would like to know whether it was the delay in the contracting or the bad weather. We are getting this double talk again, it seems to me. Now they are talking about bad weather which threw them off schedule.

Mr. HENDERSON: The tenders were opened on September 19 and the contract was awarded on November 22, which, as you can see, is only slightly over the 60 day period.

Mr. BIGG: But is not the 60 days normal?

Mr. HENDERSON: Yes, that is the standard practice of the department. That was known to the contractor.

Mr. BIGG: They were not delayed another two months beyond that.

Mr. HENDERSON: That threw him into the bad weather and consequently extra expense. So he came back for—

Mr. BIGG: No. What I am trying to get at is this. Was the delay beyond the normal 60 days which they usually expect? Did it take them four months to award the contract, or did it take the normal 60 days which every contractor knows he has to wait for government contracts?

Mr. BOYLE: In fact it was 64 calendar days, including the close of tender and the award of the contract.

The CHAIRMAN: Four days over.

Mr. BIGG: What is the average time?

Mr. BOYLE: Usually they are awarded in a much shorter period than that. It is usually within 30 days.

Mr. BIGG: That is what I am trying to get at; if there was an actual delay over the normal time of 30 days, then I think he has a claim.

Mr. BOYLE: In this case there was this proviso, as Mr. Lalonde pointed out, of an alternative submitted, possibly by the tenderer. This tenderer chose to submit an alternative and it was, therefore, necessary for his design to be reviewed before the contract could be awarded. It was only 26 calendar days after that design review had been carried out that the contract was awarded; but that consumed a longer period between the tender call and award. That review of the alternative design was the contributing factor toward running it to 64 days.

The CHAIRMAN: It still does not alter the fact, Mr. Bigg, that he accepted the contract and agreed to perform the work at a stated price.

Mr. BIGG: I just thought that in government contracts we might standardize some kind of a form and say you will note that after 30 days we will be subject to a variation of price if we delay you, and so on. Then he will know exactly where he stands, and when he can get out of the contract without loss.

The CHAIRMAN: Who signed this letter to Treasury Board suggesting the Treasury Board pay the \$20,000?

Mr. HENDERSON: This is an authority to amend the contract recommended by the Department and, in this case, is addressed to the Treasury Board and signed by the Minister.

The CHAIRMAN: And who was the minister?

Mr. HENDERSON: Mr. Deschatelets.

Mr. BIGG: To amend the contract?

Mr. HENDERSON: Yes.

The CHAIRMAN: Is this the way all these things are handled?

Mr. HENDERSON: Yes, this is a standard submission as made by all departments to the Treasury Board. They have a format on which they require their information submitted and the recommendation is required to be signed by the department requesting the money.

Mr. BIGG: What I was suggesting was that if the form was well made out in the first place, there would be no such thing as an appeal, because once they had signed it they would know that delay or no delay they had accepted it under these terms and then the departments would not have to argue with them.

The CHAIRMAN: Mr. Bigg, I am going to write the word "note" beside section 8 here. We will proceed with no. 9.

Mr. LALONDE: You wanted to know the target date for completion? It was August 31, 1962 and the work was completed in October, 1962.

Mr. BALLARD: I did not quite hear the dates you gave.

Mr. LALONDE: The target date was August 31, 1962, and the work was completed in October, 1962. That is about two months afterwards.

Mr. HENDERSON: Number 9 deals with additional costs that were due to construction delay at Pointe-au-Père. This is the case of ferry operators objecting to reconstruction of both ferry service terminals during the season of heaviest traffic because this would have interfered with the maintenance of their schedule. The department met this objection by delaying the planned reconstruction in one of the terminals for a period of approximately three months and in due course reimbursed the contractor for \$14,938 additional costs as a result of the delay.

The CHAIRMAN: Are there any questions? If not we will go on to No. 10.

Mr. HENDERSON: This is another case of bedrock, not disclosed by the original borings, being encountered on the job which necessitated a change in the contractor's method of operation and delayed progress of the work. Consequently the undertaking had to be closed down for the winter months because of the effect of the delay on other phases. The department paid the contractor \$12,909 to compensate him for his additional costs caused by these factors.

The CHAIRMAN: Who did the boring in this case?

Mr. MILLAR: It was done by a consultant.

The CHAIRMAN: We do not seem to be able to get a good job done in boring no matter who does it. Is there anybody who wants to start a business in boring?

Mr. BIGG: Somebody is doing a pretty good job right now.

Mr. NOBLE: I would judge that this boring business is an excuse to get a little more money.

The CHAIRMAN: I think they are boring the till.

Can we not get around this problem? It keeps popping up all the time. Are you making extra effort to get good consultants on the job? Are there many to choose from?

Mr. LALONDE: I have said it many time, Mr. Chairman, and I will say it again. I am prepared to take the calculated risk that we are taking now because I think we are saving a great deal of money the way we are doing it now.

Mr. BIGG: Do you think the 100 foot grid is sufficient in view of the number of time they have missed, rather than tighten up and use four times the number of drill holes?

Mr. LALONDE: That is right.

The CHAIRMAN: Mr. Lalonde, have you ever given any thought to approaching it this way: you are going to call for a contract, and let the one submitting the contract be responsible for doing his own boring. If he gets a bad job, well then that is his responsibility.

Mr. LALONDE: That is not possible. In our old contract form although we took borings, we stated that it was up to the contractor to take his own. However, nobody did.

The CHAIRMAN: I was thinking along those lines, let the contractor be responsible for the boring, and we would get away from this.

Mr. LALONDE: You would certainly complicate matters a great deal because, would all contractors take borings before they put in a bid? If they did, they would put it in their bid and you would pay for it. You would have six, seven or eight men taking borings before they could put in their tender. In the long run it would still be more expensive.

The CHAIRMAN: We are paying for it in a lot of these cases.

Mr. LALONDE: Only in very few cases.

Mr. BIGG: I think there is a danger here that if we have independent borings you might, on the average, get a better idea of the type of stuff they have to go through, and so on.

The CHAIRMAN: All right. We will now go to No. 11.

Mr. HENDERSON: I think we might describe this case as rather a borderline one although the amount of \$12,190 paid to this subcontractor can properly be classed as a non-productive expenditure. The payment was made to the subcontractor for rehabilitation work which had previously been carried out by him and which had suffered due to condensation and other moisture conditions in the building during a shut-down period which had been caused by the bankruptcy of the original prime contractor. It was during the construction of the new Trade and Commerce Building.

The CHAIRMAN: We will proceed to number 12.

Mr. HENDERSON: This non-productive payment of \$8,150 was made to the contractor because of the late award of the contract for mail handling equipment which did not permit him to complete his work in certain areas as expeditiously as he had planned with the result that his overhead increased.

The CHAIRMAN: Calgary, Mr. Ballard.

Mr. BALLARD: I would say that if it happened in Calgary the claim is probably quite legitimate.

The CHAIRMAN: All right. We will go on to No. 13.

Mr. HENDERSON: This is a case where ambiguity existed in the department's specifications. As a consequence, a delay developed which, in turn, forced a temporary shutdown of the work and extension into colder weather at extra cost to the contractor. As indicated, he accepted a payment of \$7,622 in settlement of a larger claim for costs arising from the discrepancy in the specifications.

The CHAIRMAN: Who wrote the specifications?

Mr. LALONDE: The department.

The CHAIRMAN: The Department of Public Works?

Mr. LALONDE: Yes.

The CHAIRMAN: The Department of Public Works wrote the specifications and it was faulty specifications that caused the trouble?

Mr. G. CLARKE (*Chief Engineer, Development Engineering Branch, Department of Public Works*): This bridge, 1,100 feet long, originally was built in 1875, a five span steel railway bridge which in 1908 was reconstructed as a highway bridge. It is a very old bridge and we were renewing the deck. At that time we had to renew the bearings. To prevent residual stresses from the movement in the bearings, we used new neoprene pads. We used a special pad of 50 durometer; the normal pad is a 60 and 70; a 70 durometer is about the hardness of a rubber heel, a 60, a tire, a 50, an inner tube. We wanted the minimum residual stress when the bridge moved.

The specification inadvertently read:

"Neoprene pads shall be 50 durometer grade complying with requirements for elastomeric bearing pads in the latest edition of the A.A.S.H.O. Standard Specification for Highway Bridges".

There is no specification for a 50. It is 60 and 70, and this is where the conflict arose. It would have been better had it read:

"50 durometer and in all other respects will meet the A.A.S.H.O. specification which are for 60 and 70."

An engineer going over this specification would assume it was right, through his knowledge of the pads and what he was using. These are all specially made and the contractor in going to a supplier would be looking for a new specification which had never been issued. It took a while to get this point clarified between the contractor, the supplier and ourselves. This was how the delay occurred.

The CHAIRMAN: Of course, if you could have solved it sooner you would have saved \$7,622.

Mr. CLARKE: If the problem had been recognized.—The contractor wrote for a copy of the specification. The lab. sent it to him. The supplier said that it did not fit. There must be a mistake in their specification. They are talking of 50. This is 60 and 70. Eventually it reached the point where we realized what the conflict of understanding was and it was cleared up immediately. But this did

throw the contractor into winter work. He could not touch the bridge. He had all his deck up and he could not put the deck down until he had raised the bridge to put the pads under it.

The CHAIRMAN: Are there any questions on this one? We will now take No. 14.

Mr. HENDERSON: In this case the prime program of the contractor was interrupted when difficulties were encountered in the pile driving operations on the foundation work for the new Department of Agriculture building. The contractor claimed for this and the department allowed \$5,324 in recognition of the fact that his supervisory staff and key operating personnel had been unable to work at full capacity during the re-design period. This relates to the new Department of Agriculture building.

Mr. BIGG: I hope they are not being too kind here. It seems to me that all contractors can expect a 5 per cent leeway or something like that in his full operating capacity. It would be strange if he went right through a major construction program and had everybody working at full tilt all the time. I would like a little more explanation on this item than that.

Mr. WILLIAMS: The \$5,000 is the portion of delay in the completion of the piling contract because the piles did not act the way we had predicted they would do from the soils information we had. There was an uplift on the piles. They were driven in clusters. They were Franki piles. After two or three were down in a cluster of eight, on the next pile down the first two or three started to lift and we had to go into a testing procedure in driving and testing these piles to assure that we would have sufficient bearing. The contractor's total operations were actually affected by it but we took the view that there were other parts of the work on which his crew were working and they did continue to work, so we made a settlement with him on a percentage of his supervisory staff owing to the fact that the pilings took a longer period than was anticipated in his planned scheduling of the work.

The CHAIRMAN: What was his original claim? You settled for \$5,324, and what did he ask?

Mr. WILLIAMS: This is actually the amount he asked in this particular case.

The CHAIRMAN: You gave him what he asked.

Mr. BIGG: I am not a construction man but it seems to me that if I was estimating the over-all contract in building anything I would not expect 100 per cent efficiency all the time. This would be part of my estimated cost; the loss of time, bad weather, acts of God, human errors, broken arms on special operators and so on. I just do not see why they should come to us at the end of a fairly major contract and say: "Everything has not gone the way we wanted it and will you please give me some more money."

Mr. WILLIAMS: All of those things would be his responsibility but those things where he is delayed by the actions of the department in the case of a re-design or a re-testing program, then, under the new contract, we accept the responsibility for this. We imposed something on him which was not the situation when he bid. We accept the responsibility for it and we pay it.

Mr. BALLARD: In other words, you are saying that the piling was not included in the original contract.

Mr. WILLIAMS: The piling was included but it did not perform in the way we had anticipated it would perform. Our design had to be modified.

Mr. BIGG: He was held up in an unanticipated manner?

Mr. WILLIAMS: That is correct, because of a change in design.

Mr. BIGG: That makes sense. He was held up in a completely unanticipated manner. Something happened over which he had not control and which he could not be expected to allow for in his general tender—

Mr. HENDERSON: Mr. Williams, it was an *ex gratia* payment. Would that be correct?

Mr. WILLIAMS: It would not be *ex gratia*. It was included in an extra to the contract.

Mr. BIGG: I do not care if you raised the contract if it was, in fact, as you have said, a completely unforeseeable circumstance. The difficulty in piling is something that I would certainly foresee if I was a pile driver.

Mr. WILLIAMS: It was his non-productive payment in delay because of the additional testing we had to do in evaluating a new design. This is the part that is non-productive.

Mr. BIGG: He had all his staff on the job?

Mr. WILLIAMS: He had his staff on the job; in this particular case he was entirely reasonable because we assessed only certain supervisory staff not otherwise employed.

Mr. BIGG: Was this a large job again?

Mr. WILLIAMS: Yes, this was the agriculture building which runs \$9 million.

Mr. HENDERSON: The Chairman has just been called out, for a minute. Would you wish to carry on with No. 15? We only have two more to finish. No, I think this is the last one.

This No. 15 is an unusual case. An architect was engaged by the department in connection with a proposed postal terminal building at St. John's. He submitted his preliminary plans for approval and proceeded with the preparation of working drawings when it was decided that he should henceforth work in association with another architect. He presented a claim to the department for the work he had done to that point saying that the changes in requirements and ideas were so extensive that the early results of his undertaking had to be abandoned. As a consequence, you will note here, that the department did resist his claim but in 1964 the architect was awarded \$4,147, with costs, in the Exchequer Court of Canada, for the abandoned work. There is not a great deal that can be done about that, I presume.

Mr. BALLARD: I do not think we can argue with the judgment of the Exchequer Court but I think it would be better just to accept it.

Mr. HENDERSON: We have just dealt with the last one, Mr. Chairman, in your absence. There is not very much that can be done, as Mr. Ballard said, on

the last one, because the department resisted the claim but he took the department to court and he won. He received \$4,147. It is a non-productive payment, as you will appreciate, nonetheless.

The CHAIRMAN: Just to complete the record with the Department of Public Works, there were two questions asked this morning. Maybe you have the answers, Mr. Lalonde. I think Mr. Tardif asked one.

● (5.26 p.m.)

Mr. LALONDE: Mr. Chairman, what I was proposing to do was to review the transcript as soon as it is available. I think there are a number of questions that we have undertaken to answer or to give information to the Committee. I was hoping that we could do this in a letter which I would write to you, as soon as the transcript is available. Would this be satisfactory or would it take too long?

The CHAIRMAN: Is the Committee agreeable? Fine, that is quite agreeable. I think that completes our meeting for today.

Mr. LALONDE: Mr. Chairman, I would like to thank the Committee for the very fair analysis which you have made of our problem children. As I have said, I propose to study the transcript very carefully, as well as the Committee's report, and to follow up on some of the things which cause us a great deal of trouble and concern. If I may make one wish that would be to express the hope that we will get full backing from the Committee on the work that we are attempting to do to provide better long range planning for us as well as for our clients. I think this is very important in the long run.

Thank you very much.

The CHAIRMAN: Thank you. I think we will be very happy to co-operate with you and we will ask you, in return, to co-operate with us in this respect, that you cease to become an easy target for contractors who are delayed and other claims that they put in. Just be tough.

Mr. LALONDE: We will try, sir.

The CHAIRMAN: The meeting is adjourned.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

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LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS
First Session—Twenty-seventh Parliament
1966

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 12

THURSDAY, JUNE 2, 1966

Public Accounts, Volumes I, II and III (1964 and 1965)
Report of the Auditor General to the House of Commons (1964 and 1965)

WITNESSES

Mr. A. M. Henderson, Auditor General of Canada; Messrs. G. R. Long, H. G. Crowley of the Auditor General's office; and Mr. R. C. Labarge, Deputy Minister, National Revenue; Messrs. J. G. Howell, A. R. Hind and G. L. Bennett, Assistant Deputy Ministers; Messrs. J. W. Langford and A. P. Mills of the Department of National Revenue.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,	Mr. Leblanc (<i>Laurier</i>),	Mr. Tardif,
Mr. Ballard,	Mr. McLean (<i>Charlotte</i>),	Mr. Thomas (<i>Maison-</i>
Mr. Bigg,	Mr. Morison,	<i>neuve-Rosemont</i>),
Mr. Cameron	Mr. Muir (<i>Lisgar</i>),	Mr. Thomas (<i>Middlesex</i>
(<i>High Park</i>),	Mr. Noble,	<i>West</i>),
Mr. Dionne,	Mr. Racine,	Mr. Tremblay,
Mr. Flemming,	Mr. Schreyer,	Mr. Tucker,
Mr. Forbes,	Mr. Stafford,	Mr. Winch—(24).
Mr. Gendron,		

(Quorum 10)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, June 2, 1966.
(16)

The Standing Committee on Public Accounts met at 11.10 a.m. this day, the Chairman Mr. A. D. Hales presiding.

Members present: Messrs. Baldwin, Ballard, Bigg, Cameron (*High Park*), Dionne, Hales, Lefebvre, McLean (*Charlotte*), Muir (*Lisgar*), Noble, Schreyer, Tardif, Thomas (*Middlesex West*), Tucker, Winch—(15).

Also present: Mr. Southam.

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long, Assistant Auditor General; Messrs. Crowley and Laroche of the Auditor General's staff; Mr. R. C. Labarge, Deputy Minister of National Revenue; Messrs. J. G. Howell, A. R. Hind and G. L. Bennett, Assistant Deputy Ministers; and Messrs. Langford, Gorman, Mills and Last of the Department of National Revenue.

The Committee questioned representatives of the Auditor General of Canada and the Department of National Revenue on items dealing with Customs and Excise in the 1964 Auditor General's Report to the House of Commons. The following paragraphs were covered:

Paragraph 69—Payment of duty on coasting trade vessel deferred. (Taken in conjunction with the report of the Subcommittee tabled May 25, 1966.)

Paragraph 70—Remission of duties on certain motor vehicles and parts.

Paragraph 71—Refund of sales tax on materials used in construction of certain buildings.

Paragraph 72—Refunds of duties and taxes on estimated basis.

Paragraph 73—Refund of duty paid on goods diverted to use other than that for which they were imported.

Paragraph 74—Possible loss of revenue when goods lose tax-exempt status.

At 12.15 p.m., the questioning of the witnesses continuing, the Chairman adjourned the meeting to 3.30 p.m. this same day.

AFTERNOON SITTING (17)

The Committee reconvened at 3.45 p.m. this day, the Vice-Chairman Mr. T. Lefebvre presiding.

Members present: Messrs. Baldwin, Bigg, Cameron (*High Park*), Lefebvre, Thomas (*Middlesex West*), Tucker, Winch—(7).

In attendance: (Same as at morning sitting).

The Vice-Chairman welcomed the delegation from the Department of National Revenue. Mr. R. C. Labarge, Deputy Minister of National Revenue, thanked the Committee for being given the opportunity to attend.

The Committee resumed consideration of the 1964 Auditor General's Report to the House of Commons, in particular:

Paragraph 75—Loss on buildings abandoned.

Paragraph 76—Drawback paid on goods destroyed after release from Customs.

Paragraph 120—Accounts receivable—Department of National Revenue. (Deferred for consideration with same item in 1965 Auditor General's Report.)

The Committee then proceeded to the review of the 1965 Auditor General's Report to the House of Commons, as follows:

Paragraph 90—Departmental practices which lack statutory sanction. —With respect to this item, the Clerk of the Committee has a copy of the Department of National Revenue Excise circular ET 81 as cited by Mr. Winch.

Paragraph 91—Settlement of sales tax on percentages of total sales.

Paragraph 94—Drawback paid on goods destroyed after release from Customs. (Considered at same time as item 76 above).

At 5.30 p.m., the Vice-Chairman adjourned the meeting to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

THURSDAY, June 2, 1966.

The CHAIRMAN: Gentlemen, we have a quorum.

We find ourselves in more confined quarters this morning. However, they are air conditioned and we are happy for that. As you know, we have before us this morning the officials of the Department of National Revenue, Customs and Excise, and if you will turn to the 1964 Auditor General's Report, on page 33, paragraph 69, we will commence at that point and proceed by the usual system of having Mr. Henderson, briefly as possible, bring to the attention of the Committee what has been brought to our attention in these particular paragraphs. Then we will ask a member of the department for any observations he wishes to make and then the members to ask their questions. Again I ask that the verbal part be made as short as possible and to the point, crisp questions and answers because we have an awful lot of work to do. So Mr. Henderson would you proceed?

69. Payment of duty on coasting trade vessel deferred. The owner of a foreign-built British vessel applied for a licence to engage in the coasting trade of Canada. Section 670 of the Canada Shipping Act, R.S., c. 29, states that a coasting licence shall be issued to foreign-built British ships upon payment of the duty which the Customs Act and related regulations require to be paid in full. The owner was accordingly assessed duty on the vessel under tariff item 440 at the rate specified, viz., 25% *ad valorem* on the fair market value of hull, machinery, furniture and appurtenances. On August 6, 1963 the Department instructed its collector at the port of entry to issue the licence but, because the owner could not pay the duty of \$10,078 in full, arranged to accept a down payment of \$3,000 on August 12, 1963 and post-dated cheques payable monthly through September 30, 1964 to cover the balance. No interest was charged.

The Customs Act is not only specific under section 22 in requiring that duties must be paid in full at the time goods enter Canada but also provides under section 79 that:

"No person shall make, nor shall any officer accept any bond, note or other document for the purpose of avoiding or deferring the actual payment of duties legally accruing on goods imported into Canada, or arrange for deferring payment of such duties in any way, unless such goods are entered for warehouse, and duly deposited therein according to the laws and regulations governing the warehousing of such goods."

To further protect the revenue, the Act provides penalties under section 235(1) to be assessed against a collector or other officer who allows payment of duty to be avoided or deferred:

"Every collector or other officer who allows the payment of duties of Customs to be avoided or deferred for any cause or consideration whatsoever, except by regular entry for warehouse, is liable to a penalty equal to the full value of such goods, and the duty accruing thereon, which shall be recoverable in any court of competent jurisdiction, from him or his sureties or either of them."

When the Department instructed its collector at the port of entry to issue the coasting licence to the owner of the ship the collector was advised that special arrangements had been made in the Department regarding payment of duty. As a consequence of carrying out this instruction, involving as it did payment of duty on an instalment basis, the collector immediately rendered himself liable to the penalty imposed by section 235(1) which amounted to \$50,391. On September 26, 1963 the full amount of this penalty was remitted by an Order in Council under authority of section 22 of the Financial Administration Act. The remission is shown on page 43·13 of the Public Accounts for the fiscal year 1963-64.

On drawing the irregularity of these steps to the attention of officers of the Department, we were informed that they are of the opinion that payment of the duty in the manner described was legalized by remission of the penalty assessed against the collector and that the procedure used is proper within the meaning of the legislation involved.

It is the opinion of the Audit Office that the penalty provision contained in section 235(1) of the Customs Act exists for the protection of the revenue against collectors or other officers who may allow payment of duties to be avoided or deferred, and that the action of the Department in penalizing the collector for its own failure to collect the duty in full and then causing the penalty to be remitted is irregular and undesirable. If it is not, then it would appear that any section of any Act with respect to which there is a penalty within the meaning of section 22 of the Financial Administration Act could be circumvented simply by using the device of having a public officer deliberately contravene any such section and then remitting the penalty incurred by his unlawful act.

Section 670 is one of the sections of Part XIII of the Canada Shipping Act and, as already stated, specifically provides that a coasting licence may be issued to a foreign-built British ship only if the duty has been paid. Section 673 in Part XIII gives the Governor in Council the following power:

"The Governor in Council may, from time to time, by order in council declare that the foregoing provisions of this Part shall not, for the period specified in such order in council, apply, either throughout Canada or in any specified waters of Canada, to the ships or vessels, or to any specified, ascertained or ascertainable class or number of the ships or vessels, of any foreign country."

It was noted that the Order in Council referred to above also exempted the vessel in question from the provisions of Part XIII of the Act. Since the power of the Governor in Council in section 673 is restricted to ships of "any foreign country", it seems to us that the exemption could not apply to the vessel in question which is a foreign-built British ship. In reply to our inquiry concerning this, departmental officers stated they were treating the ship as though she were a foreign ship because the duties were being deferred and not paid at the time the coasting licence was granted.

Mr. A. M. HENDERSON (*Auditor General*): Thank you, Mr. Chairman. The committee has already considered the nine paragraphs listed under the matters of consideration today in the presence of our witnesses. Now, I assume the members will not wish to dwell at any length on these except perhaps to ask our witnesses questions on a number of the items. Therefore, as the Chairman has said I will refer briefly to each paragraph by way of introduction so as to remind those members present of the subject matter of each. The first of these, as the Chairman has stated, is paragraph 69. This paragraph recited the action taken by the Department of National Revenue in connection with the licensing and taxing of a coastal vessel and indicates the three steps taken by the department which in my opinion were both irregular and undesirable. This matter was discussed with you on May 5, when it will be recalled that a four member ad hoc committee was convened consisting of Mr. Baldwin, Mr. Bigg, Mr. Flemming and Mr. McLean (Charlotte). The committee met with my officers on May 13, and their report was submitted to the main Committee on May 16. I believe the clerk has copies of this report for the use of the members present this morning. I do not know to what extent members may wish to question the witnesses on this item, Mr. Chairman.

The CHAIRMAN: Mr. Baldwin, as chairman of that committee would you like to speak first?

Mr. BALDWIN: Very briefly, Mr. Chairman. When we met with the officers of the Auditor General's staff they were good enough to make available to us all the information and material which included a document in the form of a communication from the department which in fact verified the statements made by the Auditor General. As a result of that the committee made its report; it was unanimous, and we did make one recommendation. Now on the facts that were submitted to us we felt this was the proper recommendation to make. We might, as sometimes happens in a capital case, have felt that there were extenuating circumstances which guided us in making a recommendation for mercy so that the capital sentence would not be carried out completely, but this was our view and it has been turned into a report Mr. Chairman.

The CHAIRMAN: Mr. Labarge, would you like to elaborate on that?

Mr. RAYMOND C. LABARGE (*Deputy Minister Customs and Excise, Customs and Excise Division, Department of National Revenue*): Thank you, Mr. Chairman.

The CHAIRMAN: Just one moment. There seems to be some sort of confusion. You have all got copies of the report. We are on page 32 of the Auditor General's 1964 Report. Thank you, Mr. Labarge.

Mr. LABARGE: Mr. Chairman, not knowing the recommendation I have to sort of wander into it, but knowing the file I think perhaps I should add a few comments to this.

Mr. BALDWIN: The recommendation was that under circumstances such as this it might well have been that covering legislation might be enacted in due course to permit steps such as were taken, if they had to be taken, to be taken under sanctions of the statute.

Mr. LABARGE: Yes this is exactly the point. I think that this does exist and really I am not sure that the action taken was fully evidenced in the proper way. The fact is that we have a ship which from our point of view is a foreign ship. Under section 673 the Governor in Council can allow such a person such a foreign vessel to operate for a period of time without any payment of duty.

Now under this you would have perhaps said to us "why did you not let him operate without payment of duty?" Well this provision is used frequently for short term periods in which a vessel can operate in a given area for the specified period. This is the equivalent of a duty free temporary permit. By using this section what we were doing in this case because the man had presented us with post dated cheques was in fact to allow him as provided in the section, temporary periods which were determined by the due date of his cheques is post dated cheques. If at any time any of those cheques had bounced this temporary permission would have ceased. It was because in this case we had cheques which as revenue at the end would total the amount of duty and put him on a permanent basis that we could have either given him the conditions we did or we could have given him a period of one year in which to operate under this section. we could have gone by Order in Council waiving the total amount of revenue.

Mr. TARDIF: Is this a specific practice to accept post dated cheques in cases like that? Is it the practice to do that?

Mr. LABARGE: I must say it is not the practice but it is not the practice of ours either to refuse duty when we have it given to us even though the terms may not be on the same basis as if you said to the man "look you can operate for a month on a temporary basis. And then at the end of that you have to pay full duty or you can operate for two months and pay full duty." We could have given him a year and then taken full duty and it would have been perfectly all right.

Mr. TARDIF: Mr. Chairman, I understand that but what I do not understand is why the man got fired for apparently following the regulations that were laid down by your department.

Mr. LABARGE: Sorry the man was not fired Mr. Chairman.

Mr. TARDIF: Penalized let us say.

Mr. LABARGE: No this I do not think really was necessary. I think this was just protection in the event that this point should be raised.

The CHAIRMAN: Mr. Labarge what would happen if the cheques were returned N.S.F.?

Mr. LABARGE: Then the boat would have been taken right out of the coasting trade immediately.

The CHAIRMAN: Any further questions? I just have one.

Mr. TARDIF: Mr. Chairman, Mr. Labarge said that this man was not penalized and this is what it says: "The committee agreed with the Auditor General when he states that the action by the department in penalizing one of its collectors for its own failure to collect the duty in full as provided by law." So was he or was he not penalized?

Mr. LABARGE: No sir. I think the point that is made is that by the very fact we obtained this remission of the penalty in order to protect him we have as it were admitted or felt that perhaps he could be penalized. I think that is what it amounts to. It was an extra measure of security but the man was not penalized.

In the first place what we were acting under was what we believed to be a proper interpretation of the law that we have the authority to do this. But when it came time to put this down in quoting the authorities someone said "well it is possible that this section may be raised and you had better make sure that you protect the officer in this case" Now the officer we talk about personally would never have been in danger since the matter was handled by a superior officer in headquarters and he operated under instruction so the responsibility was assumed by a senior official.

Mr. TARDIF: Then, Mr. Chairman, I think there should be a qualification made both in the original statement made by the Auditor General and by the subcommittee.

The CHAIRMAN: Would you like to speak to the word penalizing in your report?

Mr. BALDWIN: Have you a copy of the order in council that provided for the remission?

Mr. LABARGE: Would you like me to read it or would you like to see it?

Mr. BALDWIN: Well, would you read the relevant parts?

Mr. LABARGE:

His Excellency the Governor General in Council, pursuant to section 673 of the Canada Shipping Act is pleased hereby to waive the provisions of part XIII of that Act in respect of a foreign vessel in the coasting trade and, pursuant to Section 22 of the Financial Administration Act, to remit penalty, in accordance with the following minute of the Treasury Board.

Mr. BALDWIN: It was on that basis as I understand it Mr. Chairman we took it that there would have to be a penalty in order for there to be a remission, and while we quite understood that there was never any suggestion that the officer in question or the official in charge would have to bear personally this amount, nevertheless, it was our view, as I take it, in discussing it with the other members that there was an order in council under the Financial Administration Act remitting the penalty. Before it could remit the penalty there must be a penalty to be remitted. It was on that basis that we followed the Auditor General's Report and incorporated that provision in our report.

Mr. LABARGE: Mr. Chairman, I think based on this you were quite right.

Mr. McLEAN (Charlotte): That is the point that I was making.

Mr. BIGG: I would just like to know if there is any logic in keeping this regulation in force. Are there occasions when customs officials should be penalized; is this to prevent him from allowing some ship to come in and operate a short time without paying the proper dues and then get away, but we cannot recover from him, or should this statute be changed so there is no necessity for an unnecessary penalty to be on the books?

Mr. LABARGE: We are speaking of two sections in this. We have the section which places a penalty on an officer for not collecting the duty and taxes. Is this the one you are referring to?

Mr. BIGG: Yes.

Mr. LABARGE: Yes. Well, this offers certain safeguards to the revenue. It is something that stands in front of a man's eyes all the time; that I must make sure that I collect the duty, and so forth, because otherwise I will be held responsible.

Mr. BIGG: You feel it is a safeguard?

Mr. LABARGE: Yes, it is a pretty rugged one, you must admit.

Mr. BALDWIN: Has this course of action ever been repeated since then?

Mr. LABARGE: No.

Mr. MUIR (*Lisgar*): Where the permission to operate may be revoked on non-payment, such as you experienced with these cheques that he was giving you, would it not be desirable to have that regulation changed so that it could be made lawful? You can always revoke the permission if the cheque does bounce?

Mr. LABARGE: The general circumstance in this is that we waive the requirement of duty for foreign vessels, under this section. So when you waive it there is no duty to be collected. But in this case we have the duty at hand, to be payable at certain periods, so by a stretch of imagination we permitted the duty free operation of this vessel during these periods, collecting the duty in pieces at the end of each one of these duty free periods until the total came up.

The other alternative, as I say, would have been to allow the man to operate this foreign vessel which we can do under this section for a whole year while he accumulated the amount, and then he would have cleared it through customs and been free.

Mr. TARDIF: Are you saying the department has the right to say to the shipowners, for instance, that the position is that you pay your total duty or excise duty or you cannot operate in our waters, or does the same person have the authority instead of saying that to say, "well, you can give us a post dated cheque over a period of one year". Must the department give him permission to operate for a period of one year as a statutory measure?

Mr. LABARGE: We have to operate for this temporary period on an order in council.

Mr. TARDIF: You have to?

Mr. LABARGE: Yes.

Mr. TARDIF: The order in council that applies to each condition separately.

Mr. LABARGE: Each case?

Mr. McLEAN (*Charlotte*): I would like to ask Mr. Henderson if he understands this.

Mr. HENDERSON: Mr. McLean, there is a paragraph at the top of page 35 where we say:

It was noted that the order in council referred to above also exempted the vessel in question from the provisions of Part XIII of the Act. Since the power of the Governor in Council in section 673 is restricted to ships of "any foreign country", it seemed to us that the exemption could not apply to the vessel in question which is a foreign-built British ship.

Now, at all material times in our examination of this transaction this ship was a British registered ship, as defined in the Canada Shipping Act; it was registered in the British West Indies, it was owned by a Canadian corporation, domiciled and resident in Canada. The ship was, therefore, as I have said, in our view a British registered ship, and it was not a ship of any foreign registry. It was on that basis that we questioned the validity of the order in council as it was issued on that point. That is a point separate, and apart of course, from the fact that—

Mr. TARDIF: What I am interested most in, Mr. Chairman, is that it appears that this fellow was penalized and it is not a fact that we penalized an official that makes a mistake.

Mr. HENDERSON: Mr. Tardif, this had to do with the issuance of the licence, the Customs Act is not only specific under section 22 in requiring the duties must be paid in full at the time goods enter Canada, but it also provides, and I then go on to quote the relevant section of the Customs Act.

And then to further protect the revenue there are penalties provided to be assessed against any collector or other officer who allows payment of duty to be avoided or deferred.

Having accepted post dated cheques to pay for the duty, the first part of the act as circumvented and then it became, as Mr. Labarge said, necessary to invoke the section which penalizes the officer and to take him off the hook, which was also done. By that time the collector having rendered himself liable to the penalty imposed, it was over \$50,000, it had to be increased in accordance with the provisions of the Customs Act.

The CHAIRMAN: I would like to ask Mr. Labarge why the owner of this ship was not told to go out and borrow \$10,078, which was the duty payable; go out and make his own financial arrangements and live within the law as laid down by the department?

Mr. LABARGE: Well, this was exactly the kind of torture he went through. Number one he bought a ship on which he put down all his money only to find that it was at a lower value than we would accept for customs; then he found that he owned the ship and he had repairs to put on it so that he could earn some money. He put it up on the docks and again ran into considerable expense. He then had no money at all left and made every effort possible to get funds. He pointed out that the only way in which he could earn any revenue was by the operation of the ship and this involved the employment of himself and his crew, and others as well.

The CHAIRMAN: So with that in mind, as it says, special arrangements have been made in the department regarding payment of duty. And those arrangements were made irrespective of the terms of section 235 (1).

Mr. LABARGE: In the belief that we had authority.

Mr. McLEAN (*Charlotte*): Was this the collector's fault? Did the collector not know that the man could run his boat for a year without paying the duty?

Mr. LABARGE: The collector can do nothing about that himself, sir. It has to be by an order in council.

Mr. MUIR (*Lisgar*): Was this under a special order in council?

Mr. LABARGE: Yes.

Mr. MUIR (*Lisgar*): Well I cannot see where the department is at fault if it was under a special order in council.

Mr. BALLARD: Are we not talking about two separate things here? First of all, the fact of the action of the collector, and then, second, is there not a distinction between a foreign ship and a Canadian built ship? I would like Mr. Henderson to go over that point again, if there is a distinction between these two.

Mr. HENDERSON: The intention of the department, Mr. Ballard, was to provide for this ship to operate in Canada on coastwise trade in much the same way that owners of foreign ships are granted coastal privileges, from time to time under section 673 of the Canada Shipping Act with payment of appropriate duty. In the case of this ship, for the reasons I quoted you, we take the position that at all material times it was a foreign built ship of British registry.

Mr. BALLARD: In that case it should not have been subjected to the regulations it was subjected to.

The CHAIRMAN: Why do you not call on Mr. Labarge? The question is, does it make any difference whether it is a Canadian built and owned versus a foreign ship? Is that the question Mr. Ballard?

Mr. BALLARD: That is right.

Mr. HENDERSON: May I ask Mr. Crowley if he could just explain this to you?

Mr. H. G. CROWLEY: (*Audit Director, Auditor General's Office*): This particular ship was foreign built British registered and as such, section 673 could not be brought into play to apply to this particular ship. Now in connection with section 22 of the Customs Act and Part XIII of the Canada Shipping Act these specifically prohibit any coasting licence to issue without the customs duties having been paid. There is nothing on either act to permit instalment payments or deferred payments to take place and that is what happened here.

Then section 235 of the Customs Act specifically prohibits any customs officer under threat of severe penalty to allow any coasting licence to be issued. Now what happened here? The customs officer several times wrote to the department wanting to know how he could issue this licence in view of this particular fact. In other words he wanted to know who was going to take the responsibility. As Mr. Labarge has stated Mr. Chairman the department said that they are taking responsibility as to how the duty will be paid and his duty

was to issue the licence whenever the owner applied for it. The owner applied for the coasting licence, he was issued the licence without the customs collector knowing how the duty was being paid.

The order in council provided for under section 22 of the Financial Administration Act (not section 22 of the Customs Act) the remission to the collector of the penalty. The collector perhaps did not know this order in council existed. In other words the penalty which the customs collector automatically incurred by reason of section 235 of the Customs Act was now remitted under section 22. In other words his sin was forgiven. That is what happened in this instance.

Mr. TARDIF: A sin he had not committed.

Mr. CROWLEY: That is right. Now the other part of the order in council says:

The board recommends that the provision of Part XIII of the Canada Shipping Act shall not apply to the use in the coasting trade by (the owner of) the American built *El Amigo* and the remission of penalty to which the collector of customs and excise who issued a coasting licence for the *El Amigo* is subjected by section 235 of the Customs Act in allowing the customs duty to be deferred on an instalment basis.

In other words the Act was broken and that was the first point.

Now, number two.

You cannot apply section 673 of the Canada Shipping Act to a foreign built British registered or Canadian registered vessel.

That section applies to foreign built foreign registered, and as Mr. Labarge has mentioned, there are occasions under another type of order in council on a one-sixtieth basis whereby an owner of a foreign regulation vessel can come in and perhaps run from port to port once or twice and he pays a certain amount of duty. Now, in this case Mr. Labarge was saying that you are stretching it; you are taking the first instalment and you are saying that this is one-sixtieth; the second instalment is two-sixtieths, and that sort of thing. But the point is, that this particular transaction did not take place under the one-sixtieth. It took place under this particular order in council.

Mr. TARDIF: He probably did not know that all this was on it, and this was part of his record. I am glad that this was brought out in this Committee because if ever this particular employee has trouble we can refer to the minutes of today's meeting, or the previous meeting where it is said that this man is being remitted of sins that he has not committed. I think that if a man who is to be remitted of sin at least he should have the fun of committing it.

The CHAIRMAN: Mr. Ballard, if you are satisfied with the answer to your question, then we will have—Mr. Labarge do you want to add anything further? If not, we will proceed.

Mr. LABARGE: This is very complicated. I think we would be taking up a great deal of the committee's time. There is a difference of opinion here; this is not a Canadian vessel, and so what else can it be? It is not a British built and British constructed vessel, and so the law has always been interpreted that such a vessel must be foreign and it has been treated as a foreign vessel.

Mr. NOBLE: Could I ask one question? Is the owner of this ship a Canadian citizen?

Mr. LABARGE: Yes.

The CHAIRMAN: Is the boat still operating?

Mr. LABARGE: Yes.

The CHAIRMAN: And he is carrying on a good business?

Mr. THOMAS (*Middlesex West*): Was the subcommittee made aware of all this information when they reached their decision?

Mr. BALDWIN: Well, not all the details, for instance. We were aware of the fact that there had been what you might call these technical breaches of the legislation and that because of those technical breaches the official had become liable to a penalty, and after having become liable to a penalty then the order in council had been passed remitting the penalty. It was our view that the means by which the department was able to persuade one of its officials to become guilty of a technical breach of the act, thereby rendering himself liable to the penalty even though the penalty was later on to be remitted by an order in council, was not a good and desirable practice. This is the information on which we reported.

Mr. THOMAS (*Middlesex West*): My question now to Mr. Labarge is: Has the department made any recommendations to the government for changes in the act to cover this situation, or is it desirable that the situation be left as it is so that individuals must be put in the position of wrong doing technically at least?

Mr. LABARGE: We have a number of amendments, resolutions now, which cover that in other areas where we obviously have a deferment of the payment. This is covered clearly by the permit system and a full control. The essence I think of what I was trying to say in connection with this case was that a whole bunch of documentation went forward, needlessly when I think a proper examination of our statute as it exists, and the authorities within it would have enabled us to do this had we gone about it the right way. I believe if we had handled this by a proper submission which would have produced a proper order in council we would not have had the same kind of treatment.

Mr. THOMAS (*Middlesex West*): How would you define a proper order in council, Mr. Labarge?

Mr. LABARGE: As I said, this would take up some time in debate and Mr. Howell could enlighten us on this because he is familiar with shipping. A ship such as this is not a Canadian ship: it is not British registered and British built. So it falls into the no man's land of foreign ships. Now, there would be a technically there as to the words "of any foreign country", but what do you do with a Canadian owner of a foreign ship, leave him in this limbo. Now, the interpretation has always been that he would be treated as though it were a ship of a foreign country.

Mr. THOMAS (*Middlesex West*): In your opinion, Mr. Labarge, can the legislation be amended in some practical way to cover this point?

Mr. LABARGE: I would like to look at it with a view to doing that, sir, because I would not want to have this trouble again.

Mr. THOMAS (*Middlesex West*): Have any recommendations been made to date?

Mr. LABARGE: Not that I am aware of.

The CHAIRMAN: Are we ready to proceed with the next one?

Mr. BIGG: If this official did the same thing again, then he would have to be subject to this penal clause and be remitted again, as it stands. Is that correct?

Mr. LABARGE: I think we would work this under the section in the proper way, under section 673, and we do not feel we would have had to go for the waiver of the penalty.

Mr. BIGG: Did this official have any way of getting around this as the law stood at the time he did it?

Mr. LABARGE: I think that what we would have done is to say, despite the presentation of these cheques, tell the man that he can operate temporarily for this time and then bring us in the amount of money.

Mr. BIGG: Who would tell him that?

Mr. LABARGE: Under 673, order in council.

The CHAIRMAN: Just one short question and then we will proceed. You spoke about interpretation. That brings up the legal interpretation. Did you obtain legal interpretation, Mr. Labarge, on this matter?

Mr. LABARGE: For the way it was handled?

The CHAIRMAN: Yes. You had difficulty deciding just what should be done. Did you consult legal advice?

Mr. LABARGE: We did. We had legal advice on it.

The CHAIRMAN: Within your own office?

Mr. LABARGE: Within the department.

The CHAIRMAN: Did the Department of Justice, know about it? You did not go beyond your own department?

Mr. LABARGE: No; however all regulatory orders in council are checked by the Department of Justice.

Mr. NOBLE: Mr. Chairman?

The CHAIRMAN: Yes, Mr. Noble?

Mr. NOBLE: May I ask Mr. Labarge this question. This was a Canadian owner, what prohibited this man from bringing this ship into Canadian registry?

Mr. LABARGE: He had to pay for a coasting licence; he had to first pay the duty.

Mr. NOBLE: Well, this way he would have to pay for a foreign ship but if he had his Canadian registry he would not have to pay this coasting licence; is this right?

Mr. LABARGE: It is an importation.

Mr. NOBLE: Did he desire to bring it into Canadian registry?

Mr. LABARGE: No.

Mr. NOBLE: He did not? Did you talk with him?

The CHAIRMAN: Mr. Long? Or Mr. Henderson?

Mr. HENDERSON: Mr. Chairman, I would appreciate it if Mr. Long could say something on this case. The facts are as stated in my report, and as he will explain to you they were confirmed as correct by the department.

Mr. G. R. LONG (*Assistant Auditor General, Auditor General's Office*): Yes. In Mr. Henderson's absence I was the one who dealt with the subcommittee on this and I am sure the Committee must find the difference of opinion a little embarrassing, as I do. I would first point out that our note states on page 34 that this section 670 of the Canada Shipping Act specifically provides that a coasting licence may be issued to a foreign-built British ship only if the duty has been paid. We had a departmental document with us at the subcommittee which starts out, "this is a correct statement of fact." After the meeting Mr. Baldwin decided that we perhaps did not need to have the department come to the subcommittee. I suggested they may want to say something; that they should be made aware of the committee's report, or invited to come. We undertook to clear the report with the department, which we did. We advised them of the circumstances. As I say, we stated in the note that this could not be done under the act. This we understood the department to confirm as being correct.

I would like to point out one other thing mentioned toward the bottom of page 34. It refers to the imposing of a penalty on the collector and then remitting it. Mr. Labarge now says they perhaps did not need to do this. The fact is it was done and there is danger in such an action as we see it. We said it was irregular and undesirable. We said, "If it is not, then it would appear that any section of any act with respect to which there is a penalty within the meaning of section 22 of the Financial Administration Act could be circumvented simply by using the device of having a public officer deliberately contravene any such section and then remitting the penalty incurred by his unlawful act." We regard it as very serious that a thing like this could be done.

Mr. WINCH: It is very bad in principle.

Mr. LONG: That is right, Mr. Winch.

The CHAIRMAN: Gentlemen, the subcommittee have one sentence in here as follows: "We express the hope that the department will not again resort to such an expedient". Mr. Baldwin, do we leave that in and continue?

Mr. BALDWIN: Well, I do not know; this will have to be the subject of discussion when the report is being considered.

The CHAIRMAN: All right. Number 70.

70. Remission of duties on certain motor vehicles and parts. Sections 22 (1) and 79 of the Customs Act, R.S., c. 58, as amended, read as follows:

22. (1) Unless the goods are to be warehoused in the manner by this Act provided, the importer shall, at the time of entry pay down, or cause to be so paid, all duties upon all goods entered inwards; and the collector or other proper officer shall, immediately thereupon,

grant his warrant for the unlading of such goods, and grant a permit for the conveyance of such goods further into Canada, if so required by the importer.

79. No person shall make, nor shall any officer accept, any bond, note or other document for the purpose of avoiding or deferring the actual payment of duties legally accruing on goods imported into Canada, or arrange for deferring payment of such duties in any way, unless such goods are entered for warehouse, and duly deposited therein according to the laws and regulations governing the warehousing of such goods.

Order in Council P.C. 1963-1/1544 of October 22, 1963, passed pursuant to section 22 of the Financial Administration Act, remits all customs duties payable with respect to certain motor vehicles and motor vehicle parts to the extent by which the Canadian content value of vehicles and parts exported by the importer in three designated periods exceeds the Canadian content value exported during the base year November 1, 1961 to October 31, 1962.

In actual practice the Department generally refrains from exacting payment of duties at the time of importation and waits for a period of several months to one year or more until the extent to which the importer is able to comply with the export conditions as set out in the remission order is determined. To the extent that the importer cannot comply, he must pay the duties.

In effect, the Department is deferring payment of duty until such time as the amount, if any, which the Governor in Council has remitted is determined, and it is the Audit Office view that the Department lacks authority to do this because of the requirements of sections 22 (1) and 79 of the Customs Act.

Mr. HENDERSON: This has to do with the remission of duties on certain motor vehicles and parts. It will be recalled here that following the issuance of my 1964 report in which I had pointed out that the department lacked authority to defer payment of duty in these cases because of the requirements of the Customs Act, amendments to the Customs Act were introduced in the house in 1965, whereby statutory approval has since been given to this practice and the Department now has the authority to follow the procedure to which I had taken exception. I do not think we need to spend very much time on it.

The CHAIRMAN: It has since then been corrected.

Mr. BALDWIN: I wonder if I could make one comment and we will probably come to this later. My comment is this : I do not know what section 22 of the Financial Administration Act was originally designed to cover and how narrowly it should be regarded but as one reads the Auditor General's reports year after year one comes to the conclusion and this is not directed against the Department that this section is abused time and time and time again; I would not want to let this go past without making that comment.

The CHAIRMAN: Mr. Baldwin by that you mean we defer collecting duty where we have no right to do it?

Mr. BALDWIN: No. It is an improper use made of the remission. Section 22 is used, abused, contorted and twisted in so many cases to provide for remission that I think it is just shocking. This is my own view and possibly sometime when the Financial Administration Act comes up it should be considered. This is my opinion.

The CHAIRMAN: Mr. Henderson.

Mr. HENDERSON: Mr. Baldwin you will recall and I think the members of the Committee too that it was as a result of the work of this Committee that the statement that appears in the public accounts on the remissions has been considerably improved by setting down the reasons for the various types of remission. The statement in the public accounts is now quite illuminating and I would invite members to study it.

Mr. Baldwin: The Department of National Revenue has given effect to this by amendments in several cases. I am not levelling any blame at them but I am levelling it at the people who are responsible for the orders in council that do go through pertaining to remissions?

The CHAIRMAN: Number 71.

71. Refund of sales tax on materials used in construction of certain buildings. Section 47A of the Excise Tax Act, 1963, c. 12, reads as follows:

"Where materials have been purchased by or on behalf of

- (a) a school, university or other similar educational institution for use exclusively in the construction of a building for that institution, or
- (b) any organization for use exclusively in the construction of a building for that organization that is to be used exclusively or mainly as a public library operated by or on behalf of that organization on a non-commercial basis,

and the tax imposed by Part VI has been paid in respect of those materials, the Minister may, upon application by such institution or organization in such form as the Minister prescribes made to the Minister within two years from the time the materials were purchased, pay to such institution or organization an amount equal to that tax."

Because an actual tabulation of the sales tax paid on the many items entering into the construction of a building is extremely difficult, it was the opinion of the Department that the arrangements by which educational institutions could obtain a refund of sales tax must be simplified.

Accordingly Order in Council P.C. 1964-1/692 of May 12, 1964 approved a formula for determining sales tax refundable on materials used exclusively in the construction of buildings for schools, universities or other similar educational institutions or public libraries, to be used by persons entitled to a refund of sales tax pursuant to the provisions of section 47A as an alternative to the present standard refund claims procedure. The formula is designed to determine the approximate value of taxable material in a building and to estimate the amount of the refund that may be claimed.

Section 47A directs the Minister to pay an amount equal to the tax that has been paid and there does not appear to be any authority in the Excise Tax Act to pay a refund based on an estimated taxable value of materials incorporated into a building.

Mr. HENDERSON: Refund of sales tax on materials used in construction of certain buildings. This is a somewhat comparable situation where again I questioned the propriety of the department's action here. However, I was able to advise you on May 5 that this situation is the subject of budget resolution 15 with respect to the Excise Tax Act to be found outlined on page 3399 of *Hansard* of March 29, 1966. If this resolution is approved it will provide proper authority for the procedure which I had criticized. So that has been taken care of.

The CHAIRMAN: Paragraph Number 72.

72. Refunds of duties and taxes on estimated basis. In order that Canadian airlines may be in a tax position comparable to foreign airlines, the Governor in Council, under authority of section 22 of the Financial Administration Act, grants remission of duty, sales and excise taxes paid on parts, equipment and consumable maintenance stores for aircraft operating in international service.

The Department of National Revenue finds it administratively impractical in some cases to determine actual quantities to which remissions should apply and so relies on considered estimates in calculating the remissions to be granted.

A similar situation exists with respect to refunds to provincial governments of taxes paid indirectly. These too are estimated carefully for refund purposes in order to avoid excessive clerical costs.

If these practices, which are not now recognized by the taxing statutes, are to continue they should receive legislative sanction.

Mr. HENDERSON: Paragraph No. 72 deals with refunds of duties and taxes on an estimated basis. Again my observation here that the practices should receive legislative sanction has been recognized. This is also provided for in budget resolution 15 that I referred to with respect to the Excise Tax Act which, if approved, will provide proper authority for the department to follow the procedure I had criticized in this note; You may wish to ask the department about these. You have not yet in the House approved this budget resolution. If not, I can go on to 73, Mr. Chairman.

The CHAIRMAN: This means, Mr. Henderson, that the department are acting without the proper authority from the House. The House has as yet not brought that about.

Mr. HENDERSON: That is right. Budget resolution 15 has been introduced and if it is approved will clothe them with the authority they require to do this and thereby they meet the points I criticized.

The CHAIRMAN: I guess this problem is on our doorstep. We will have to proceed a little faster, gentlemen, to get the legislation through.

Mr. WINCH: The important question there, though, Mr. Chairman, is has any department the right to take action which is not authorized by Parliament

because it contemplates that Parliament is going to take action to give them that authority. That is a very important principle.

The CHAIRMAN: That is quite right, Mr. Winch, and yet the department have to proceed; they have to carry on their operations and their business.

Mr. WINCH: Mr. Chairman, they carry on their operations and their business according to the authority which is extant, not what they think they might get at the next session or next year.

The CHAIRMAN: They are remiss until the act is changed.

Mr. WINCH: I think they are.

The CHAIRMAN: Mr. Labarge, what are your feelings on this?

Mr. LABARGE: I think Mr. Winch is referring to those types of administrative things as distinct from the fiscal, the budget proposals which are effective immediately. These affect the intent of Parliament with respect to the application of the fiscal law, so there is a close relationship to them. For a lot of these you will find we obtained authorities which were deemed to be questionable, and it is not always a question of admission that they are illegal, but it is the wisdom, as was suggested with respect to the last item, of making it clear in the law and this we have gone along with wholeheartedly and it has been very helpful to have this. In most of these cases it is not that we have necessarily breached the law in any way; there can be a difference of opinion; we have legal opinions on both sides and we feel that even if we are right we should make it obvious that we are right.

The CHAIRMAN: Paragraph No. 73.

73. Refund of duty paid on goods diverted to use other than that for which they were imported. In a number of cases the customs tariff provides alternative rates of duty on certain goods, depending on the use to which they are to be put when imported.

No specific authority is contained in the Customs Act under which the Department may grant refunds in cases where goods were entered under an item of the tariff, upon payment of duty at the rate applicable to such goods, and subsequently diverted to a use which would have entitled them to entry under a different tariff item had they then been imported. Nevertheless, the Department as a matter of equity has adopted a policy of making refunds in such cases, treating the original payment as "duty paid in error".

It is the view of the Audit Office that if this policy is to be continued it should have legislative sanction.

Mr. HENDERSON: Refund of duty paid on goods diverted to use other than that for which they were imported. Now, this note shows how as a matter of equity the department has adopted the policy of making refunds in these cases, treating the original payments as duty paid in error. Section 43 of the Customs Act does confer wide authority on the customs appraiser and on the Deputy Minister to redetermine tariff classifications and for refunds to be made on the basis of such redetermination. However, I do not believe such authority can be exercised with respect to the deliberate diversion of imported goods to use other than that declared at the time of their entry simply on the ground that such

diversion should be regarded as a kind of error, which is why I say if this policy is to continue it should receive legislative sanction. I do not know what further comments Mr. Labarge might have on this paragraph. There has been no action taken on this observation thus far.

Mr. LABARGE: I think I would ask Mr. Hind, the Assistant Deputy Minister for customs if he would make a statement on this.

Mr. A. R. HIND (*Assistant Deputy Minister Customs, Customs and Excise Division*): The legislation setting forth duties payable on goods imported into Canada is the Customs Tariff Act. This enactment contains several thousand of provisions and it is the responsibility of the customs and excise division of the Department of National Revenue to classify imported goods and assign the duty properly payable. Most of the items are not qualified as to the use to which the goods will be put after importation. However, scattered throughout the tariff is a substantial number of provisions which have become known as end use items. These are provisions which grant lower rates of duty to goods when used in a specified manner. Typical such items relate to mining, logging, agriculture, fishing, oil well operations, metallurgical operations, sawmill operations, fertilizer manufacturers, and so on. Some of these items name the goods which are entitled to the preferred treatment. Others are general in their coverage and in this connection some are restricted in their generality, while others are without restriction. In appropriate circumstances these end use items take precedence over the general purpose provision for the goods. Thus a given article could take a number of rates of duty depending upon the use to which it will be put after importation. For example, pumps could be classified at 22½ per cent; most favoured nation tariff, when for general purpose use; at 15 per cent, when for certain metallurgical operations; at 12½ per cent, when for logging use; at 10 per cent, when for certain oil extraction operation; at 7½ per cent, when for concentrating or separating ores, metals or minerals and duty free when for certain farm uses and for fertilizer manufacture.

Were all goods imported by the end user there would be no problem as the goods would be entered under the appropriate end use item. However this is not the way business is done. Rather in the great majority of instances importations are affected by resellers be they distributors, wholesalers or dealers. At time of importation and placing into stock the use to which the article will be put is not always known. Consequently the goods are cleared at the general purpose rate. As they are sold for use which permits of a lower rate the department accepts an amending entry reclassifying them under the appropriate end use item and refunds the overpayment of duty. If such a procedure were not followed the benefit concurred by parliament would not be realized to the full. To make maximum use of the item in such circumstances the end user of the goods would become the importer much to his discomfort owing to the lack of experience in importing delay in securing delivery and much to the annoyance of the reseller who would lose this business.

An alternative would be to permit the reseller to import the goods at the lowest preferred rate and pay duty on those goods as they are sold for a use which requires a higher rate. This would be a dangerous practice and would require an extensive and costly policing operation. The refund procedure has been in effect probably since the inception of end use items and it is felt to be a

reasonable and practical way of giving effect to the provisions of the Customs Tariff Act. The department is of the view based upon the opinion of its solicitor that section 43 of the Customs Act gives the necessary legal coverage for this procedure. Section 43 (2) (a) states that and I quote:

A Dominion Customs Appraiser may redetermine the tariff classification or reappraise the value for duty of any goods made at the time of their entry

(b) in any other case where he deems it advisable within two years of the date of entry.

When the goods are sold by the importer for a preferred end use the appraiser redetermines the tariff classification from the general purpose use to the preferred end use.

Again Section 43 (4) (d) stipulates that and I quote:

The Deputy Minister may redetermine the tariff classification or reappraise the value for duty of any goods

(a) in any other case where he deems it advisable within two years of the date of entry of those goods.

Thus the Deputy Minister also has a right to reclassify the goods on their sale for a preferred end use. These two subsections are followed by section 43(5) (b) which reads as follows:

Where the tariff classification of goods has been redetermined or the value for duty of goods has been reappraised under this section

(b) a refund shall be made of the whole or a part of any duties or taxes paid with respect to the goods in accordance with the re-determination or re-appraisal.

With authority therefore for the reclassifying of goods and for the refund of duties shown to be overpaid it is felt that the department has legal coverage for its current practice.

The CHAIRMAN: Thank you Mr. Hind. Are there any questions?

Mr. BALLARD: To what extent does the department carry out an investigation to determine the accuracy of reclassification claims? To what extent is the investigation carried out?

Mr. LABARGE: I just want to clarify this question, whether or not it is put to the end use.

Mr. BALLARD: That is right. For example, motors are imported at the full rate and then there are some motors diverted to farm use, some to oil exploration use, and a merchant or an importer makes a claim for so many motors for farm use and so many motors for oil exploration. What check do you make on the claims for reclassification?

Mr. HIND: First of all, we must remember that when an amending entry is presented it is examined by the local port officer who has a knowledge of the individual who is going to use these goods. He knows the nature of the business in which this person is employed and occupied. A second check is that in many cases we require end use certificates from the person who is asking for a recovery of the overpayment of duty.

Thirdly, when the amending entry is passed, the importer takes a certificate to the effect that the goods in the new status will be used as required by the item, and if they are not put to such use, or if put for a time to such use, and then subsequently diverted, he undertakes to come back to the department and make an adjustment appropriately.

Fourthly, we have our investigational service, which periodically audits the books and records of companies to insure that the revenue is protected.

Mr. BALLARD: It occurred to me that there is legislative sanction for this procedure. Is it just the terminology of duty paid in error that you object to?

Mr. HENDERSON: No; we do not consider that there is legislative sanction for this procedure for the reasons which I have stated, Mr. Ballard. Mr. Hind in his statement referred to the fact that this has been the practice which has been going on for a long time. I can quote you a section from a letter by the deputy minister of the department ten years ago in which he states that "as a matter of equity it has been our practice to permit importers to file claims for refund where the circumstances are shown to have been as stated, considering such refunds as in the category of duty paid in error." We have examined that. We know that there is no specific authority contained in the Customs Act. My officers have looked into it; as in the case of the previous notes, I might add that we discussed this with my legal advisers who have stated to me that in their view such refunds should have legislative sanction. So that the point we are making is correct. My statement in the note at the conclusion "that if the policy is to be continued it should have legislative sanction" will, I hope, commend itself to the Committee.

Mr. CAMERON (*High Park*): If we admit that the statement "duty paid in error" has no legal sanction, could the duty be reclassified? That would answer Mr. Henderson's problem, but apparently he does not agree with that. I mean if they reclassify it, the duty would not be paid in error. It would be paid properly in the first instance; and they then would reclassify it and say, "you are using it for a preferred use and therefore you are entitled to a refund." If it is a reclassification, as Mr. Hind has said in his memorandum, it is under the law. That is the way I look at it.

Mr. HENDERSON: I would like to have a remark from Mr. Crowley on this, Mr. Chairman.

Mr. CROWLEY: What Mr. Hind has said is in accordance with the act. The point that bothers us is where is it going to stop? In other words, you bring an article of goods in and clear it through the customs and it is properly appraised and it is properly valued and then it goes out into the business stream. Now, if 18 months later they come back and they want the goods reappraised because the end use is changing where are you going to end?

And in connection with section 43, the department finds it very difficult, I think, to have their customs collectors apply section 43 because in their instruction to their port officers they say, "overpayment of duty or tax resulting from the diversion of goods is not affected by section 43". That is the section which has just been read to you. "But is to be dealt with under section 112." Now, section 112 simply relates to overpayment or underpayment or refunds.

They do not specify any type of refunds. So, in other words, in order to make the clause operative, the department finds it cannot use section 43, they must use section 112.

Our point is we agree with the department that there is an element of debate there, an element of doubt.

Mr. CAMERON (*High Park*): You say where will it end. Well, where will business go if you do not have these means whereby you can do what is in equity the thing that you want to do?

Mr. CROWLEY: In my opinion changes of that nature, diversions of that nature, Mr. Chairman, are not covered by the act.

Mr. CAMERON (*High Park*): There is a difference of opinion there.

Mr. TARDIF: Unfortunately the department is not allowed to do that. Some businessmen who are importers who need goods for their customers would not have them if they had to wait until they were sold or that the customers would not have the goods when they were required. If the department does make an occasional check on some of these importers, I do not see any danger of anything being very wrong.

The CHAIRMAN: This is a very complicated legal matter and I do not think we will solve it further this morning, but it is a recommendation we should make.

Mr. MUIR (*Lisgar*): In this case I would think that the department must have some leeway, because I can see where an importer who is going to retail the importers that he is bringing in probably does not know at the time that he is bringing it in whether he is going to sell it to a farmer or to someone else. Now, if a farmer comes and wants to buy a pump from him and he says, "well, these are duty free, you know, because I am buying it as a farmer." The man says, "well, I paid the full duty on it, 22½ per cent. Unless I get that duty from you I cannot sell it". So he goes to a man who has probably identically the same pump and has imported it for farm use. I think this has to be part of the business as far as the department is concerned.

The CHAIRMAN: You are putting the practical application on that.

Mr. HENDERSON: We are not quarrelling with that, Mr. Muir, you understand.

Mr. MUIR (*Lisgar*): No.

Mr. HENDERSON: We do not quarrel with the financial side of it; the department's administration of it has always been excellent from our standpoint. It is purely the fact that we do not think section 43 covers it and give the opinion that it should have legislation: much the same way that the previous ones have been—

Mr. MUIR (*Lisgar*): I am inclined to agree that rather than collected in error it could be called a reclassification. In that case it would be perfectly legal.

Mr. SCHREYER: Mr. Chairman, does the reference to legislative sanction relate to statutory amendments or to regulatory provisions?

Mr. HENDERSON: Section 43 of the Customs Act or whatever steps might be taken along those lines, action by Parliament.

Mr. SCHREYER: It could not be dealt with by regulation?

Mr. HENDERSON: It is being dealt with by regulation now, I presume you would say, by the department's own regulation.

Mr. CROWLEY: The term "legislative sanction" when we use it in our report means sanction by Parliament.

Mr. SCHREYER: By statute, in other words?

The CHAIRMAN: Paragraph 74.

74. *Possible loss of revenue when goods lose tax-exempt status.* Equipment is sometimes imported to be leased to an institution which is exempt from duty and sales tax, with ownership remaining with the importer.

In such cases the Department requires that the importer be in possession of a lease commitment from a tax-exempt institution and that a copy of this be filed with the relative customs import entry. Entry is also contingent on the equipment being exported under customs supervision on expiration of the lease or duty being paid on an appraised value with allowance for depreciation. The Department permits the transfer of the equipment from one tax-exempt institution to another but if the equipment is warehoused it loses its exempt status and duty must be paid.

Similar situations exist where there is entitlement to make domestic purchases free of sales tax. Should any article so purchased be later transferred to an end use that is not exempt from tax, either the new purchaser or the vendor must report and pay the proper tax.

Having laid down the rules governing goods which lose their tax-exempt status, the Department placed on the owners the onus for reporting any duty or tax payable and no departmental control of non-tax paid equipment or goods was maintained. Consequently, it is possible for equipment or goods to lose tax-exempt status without this coming to the attention of the Department, in which case there would be a loss of revenue to the Crown.

Mr. HENDERSON: This deals with possible loss of revenue when goods lose tax-exempt status. In this case my officers and I felt that this matter should be pointed out to the House because with the onus being left on the owner or importer, it is possible for equipment or goods of this type to lose their tax exempt status without this even coming to the attention of the department in which case there would be a loss of revenue to the crown. It is also possible we think for the benefits accruing to public institutions here to be retained by importers and others; that is to say without being passed on. This matter was left on May 5 so that you might question the department about it.

The CHAIRMAN: Any questions? Mr. Thomas?

Mr. THOMAS (*Middlesex West*): Do the department officials consider that practical legislation could be passed to cover these cases? Would it be practical to cover this matter by legislation?

Mr. HIND: We are of the view that our current procedure adequately protects the revenue. I have already mentioned the four or five ways, the four or

five checks, that we have in order to ensure that the goods are not diverted to some use that should require the payment of higher rates of duty. Speaking quickly, I am not sure that I could suggest at the moment any type of legislation that could protect the department. I do not know whether the Auditor General has given any thought to this or not. I think the Auditor General is suggesting that perhaps our follow-up is not adequate under this heading.

Mr. HENDERSON: It does raise some interesting questions. Mr. Hind is perfectly right.

It is the policing action which takes place in the department which we are primarily driving at. We have a case in mind, I might ask Mr. Long to give it to you. It shows you the type of questions which arise.

Mr. LONG: Mr. Chairman, this is a question on which I think the members of the Committee might be interested in hearing comments from the departmental officials. It has to do with who benefits from the special provisions that are made, and this is of course where the administrative difficulty arises, for certain users of imported goods. As I understand it, mechanical equipment of a class or kind not made in Canada and for use in public hospitals or other institutions is exempt from duty and sales tax. Presumably the intention is that the hospital or other institution be the beneficiary of this exemption, and I would like to ask the department if they do check to see that this is the case. An example that I have in mind is, say, a photocopy machine as a piece of equipment which qualifies. Now, if the normal rental of that machine which we all have in our departments is five cents a copy, does the department concern itself with whether the hospital gets a lesser rate when the machine is in fact brought in free of duty and sales tax?

Mr. LABARGE: I think we have plenty of evidence of fully checking on these things. Now, when we use such terms as "a possibility," I do not know what we can put in that ever removes all possibilities. But we do have a famous case which anybody from the Windsor area will recall where a hospital had been using television sets under exempt conditions so-called. These have turned up in the homes of certain of the staff and this is the kind of investigation which is going on.

We endeavour at the time a person imports to see that the importer has in his possession certificates which bind these people: Number one, to the fact that if they put it to any other use, or if they transfer it to anybody else who is not entitled, that it loses its tax exemption. I think we are pretty much back to what Mr. Hind was saying in one of the checks we had before, unless there is something Mr. Hind would like to add to this.

Mr. TARDIF: The hospitals have a licence which they have to use when they import goods that they are going to get an exemption of tax on.

Mr. LONG: This was not the point I was trying to make. There is no question that when hospitals make their purchase they purchase tax exempt. When it is somebody else importing, something to be rented to a hospital, the department do see that they have a lease agreement with the hospital. My question was: Do they see that that lease agreement insures the hospital a lesser rental rate because this particular machine is tax exempt than any other user would pay when the machine is tax paid.

Mr. TARDIF: Mr. Chairman, if you ever do business with hospitals you do not have to worry about the department. The hospitals look after that quite well themselves.

The CHAIRMAN: Paragraph 75.

Mr. HENDERSON: Loss on buildings—

The CHAIRMAN: Excuse me for just a moment, Mr. Henderson. There may be a question we missed here.

Mr. THOMAS (*Middlesex West*): We understand from Mr. Long that a copying machine, for instance, can be imported under a lesser duty on the grounds that they have a contract to supply hospitals with copying?

Mr. LONG: They supply them on a rental basis.

Now, we in our office as other departments, pay five cents a copy. I am curious as to how you can reduce that rate by an amount to reflect the saving in duty. My thinking is that this is a windfall to the owner of the copying machine, not to the hospital.

Mr. THOMAS (*Middlesex West*): Might we have an explanation of where we get the interpretation of the act, that for instance, a private individual or engineer who has a contract to supply copy to a hospital can import machinery or equipment to do this copying work as if he were connected with the hospital?

Mr. LONG: The Customs Tariff deals with equipment for use in hospitals. It does not say anything about purchase by the hospital or rental by the hospital.

Mr. TARDIF: Yes, Mr. Chairman. This is probably a case of the exception that proves the rule. Because I was a director of the Ottawa Civic Hospital for a good period of time and I do not remember anything that we bought that we got on renting. Most of the equipment bought for the hospital was bought outside. This may be one of the exceptions. I do not imagine that would happen very often.

Mr. WINCH: Mr. Chairman, could I ask a question of information. Is it your intention as Chairman that this committee should adjourn so the old timers can attend the presentation of the portrait for the previous Speaker?

The CHAIRMAN: You are quite right, Mr. Winch.

Mr. WINCH: I know some of us would like to go there.

The CHAIRMAN: As you know, at 12.30 p.m. there is to be an unveiling of a picture in the Railway Committee room of the Speaker Alan Macnaughton. I am sure all members of the Committee would like to attend and we will have to stop at this particular section, section 74. I am sorry that I will not be able to be present this afternoon, but I will check with Mr. Lefebvre, our Vice Chairman to see if he would continue, if it is agreeable that we sit this afternoon, and if Mr. Lefebvre is not available would it be the wish of the committee that Mr. Baldwin take the chair this afternoon?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Are you agreed to sit at 3.30 p.m. this afternoon or after orders of the day, in the same room?

We will adjourn the meeting at this point.

AFTERNOON SITTING

THURSDAY, June 2, 1966.

● (3.32 p.m.)

The VICE-CHAIRMAN (Mr. Lefebvre): I will call the meeting to order. We will proceed with paragraph 75 on page 37.

75. *Loss on buildings abandoned.* In paragraph 86 (11) of our 1961 Report, reference was made to the construction of two houses at the customs port of Pigeon River, Ontario, in 1957 at a cost of \$45,000. At that time one of the houses had not been occupied and the Department was paying the cost of fuel oil and electricity in addition to the regular expenses of upkeep. Two other houses had been built for Customs-Excise officers at this port, one in 1950 at a cost of \$16,000 and one in 1954 at a cost of \$21,000. Two houses had also been built by the Department of Citizenship and Immigration in 1955 and 1956 at a cost of \$50,000. A dormitory and a warehouse erected in 1947 and 1951 respectively, cost \$11,000. The cost of these departmental buildings at the site of the customs port thus amounted to \$143,000, exclusive of the cost of land. In the period when the houses were available for occupancy one had been vacant for seven months, one for twelve months, while the one mentioned in the 1961 Report was occupied for only nine months in its six years of existence.

In September 1963 a new bridge was constructed over the Pigeon River and the customs port was moved to the new location eleven miles to the east. The question of moving the six houses was considered but because of the excessive cost of such an operation it was decided to abandon the houses and their related buildings. Departmental officers now live in or near Fort William or Port Arthur and each receives a daily mileage allowance for commuting between his home and the port—a distance of approximately 40 miles.

The houses were declared surplus in November 1963 and turned over to Crown Assets Disposal Corporation which has since disposed of them for \$8,145 on the condition that they be removed for the site. The Department has furnished us with the following reason for this stipulation:

- (1) to have sold the buildings without such a requirement might have led to their occupancy, thereby aggravating the problem of uncontrolled border crossing while the old bridge remained in place;
- (2) the Ontario Department of Highways was unable to give any assurance that the dead-end road leading to the old bridge site would be maintained;
- (3) the possibility existed that the provincial government might include the area in question in the development of a provincial park.

The land on which the buildings had stood was declared surplus to Crown Assets Disposal Corporation in October 1964.

Before we begin I would like to welcome the new deputy minister of National Revenue, Mr. Labarge, who succeeded a man who I believe had some

40 years of service in the federal government. I would like to say, Mr. Labarge, that we are pleased to have you with us and we would like you to say a few words if you would at this time.

Mr. LABARGE: Thank you very much, Mr. Chairman, for your welcome. May I say that we really welcome the opportunity to appear before this committee and we certainly hope to be as helpful as we possibly can. As you know, the subjects that arise here are as a result of a great deal of work done by the Auditor General's staff on a continual day-to-day basis throughout the various departments. This has a very salutary effect on our entire staff, and we welcome any advice this committee may give from time to time on subjects brought forward by our Auditor General.

Mr. Chairman, I will ask Mr. Warren Langford the director general of administrative services, to speak on this.

The VICE-CHAIRMAN: Before you begin, sir. Mr. Hales, the committee chairman, left me a note. He called the department concerned, Crown Assets, and was given a few facts that he asked me to place before the committee for the information of the members.

Apparently there are still two of these homes in place, but the contract was signed that they be moved by May 15, 1964. The land has since been sold to the province. There was a call for tender and advertised as such on November 29, 1963, and also on December 6. There were altogether 16 bids on these homes. Out of a total of six homes four have been sold and removed by the persons that bought them; two are still in place. I thought I would like to give this information to the members so they would be brought up to date on the latest developments with regard to item No. 75.

Mr. J. W. LANGFORD (*Director General of Administrative Services, Customs and Excise Division*): Mr. Chairman, I think there is little doubt as to what the Auditor General has outlined in his report. The question at issue seems to be why the department saw fit to release the buildings to Crown Assets Disposal Corporation for sale while still retaining the property; in other words, why they were both not turned over to C.A.D.C. for disposal. Now, it should be explained that only part of this land is actually owned by the department, having been purchased from the Ontario government for \$122.10, and the other portion of the land was on lease from the Ontario government. So really, we were in a position to offer for sale only a portion of the land which had cost us \$122.10. Now, of course, when the new bridge was opened in 1963 we had considered the question of the removal of these buildings to the new site which is eleven miles distant, but the expenditure involved here would have been \$40,000 and Treasury Board was not prepared to approve this expenditure. Moreover, we were not able to persuade the officers to take up residence at the new site because most of them were in a position at that time to commute to and from work while living in Fort William or Port Arthur. We held on to the land for some time after we had turned the buildings over to C.A.D.C. because the old bridge was still in place and while it was there it offered an open entry, if you will, to Canada unless we were prepared to maintain people there to control border crossings which, of course, we were not prepared to do. The bridge was finally demolished and our people, of course, were already engaged in operating and manning the new site.

Another reason for holding onto the land was the Ontario government's desire, expressed at that time, to carry out a plan of converting this whole area into a park land.

The third reason was this. The Ontario Department of Highways had indicated to us that once this old bridge was out this was going to become a dead end area, and they were not prepared to maintain the highway down to the old site where people might live if they were permitted to buy these buildings. I think the view must be taken, in looking at the real value of this property down there, that there is a complete lack of services; there will be no community services whatsoever. It is a most isolated point and I think that this lack of normal community amenities would be certainly reflected in any price that might be obtained for the buildings even if they were sold complete with the property.

With those few remarks, Mr. Chairman, I think there is little to be added to what already has been said.

The VICE-CHAIRMAN: Thank you, Mr. Langford.

Mr. HENDERSON: I think the price realized for the land when it was sold back by C.A.D.C. was the same price the department had paid for it. Is that not correct? They sold it back for \$122.10 six years later.

Mr. LANGFORD: I have no knowledge, sir, of the transactions between C.A.D.C. and the Ontario government in this connection.

Mr. HENDERSON: I have here an Order in Council issued on September 2, 1966, selling back the 7.21 acres to Ontario for \$122.10. So it was held during that period of time and sold back at the same price.

The VICE-CHAIRMAN: Are there any questions, gentlemen?

Mr. THOMAS (*Middlesex West*): Well, have you any suggestions how this situation can be improved, or is it one of those things where a set of circumstances developed and no one can do anything about it?

Mr. LABARGE: Apparently it is a set of circumstances similar to those which required these houses to be built because we had no place for the habitation of the officers. That set of circumstances has now been pretty well removed in these locations by the fact that communities have developed nearby and houses have been built in those communities which did not exist before, and the road communications now permit our officers to live in a place where there is a school, water, and every other facility; and we have no intention of building any houses unless we have a situation similar to the postwar shortages of houses and similar conditions.

Mr. THOMAS (*Middlesex West*): The houses are of practically no value where they are situated?

Mr. LABARGE: That is right.

Mr. LANGFORD: I might add, sir, if I may, that we have not built any houses since 1963 and the department now has a firm policy of gradual withdrawal from the house owning and house renting business for the reasons the deputy minister has outlined, that the need no longer exists to the same extent as it did

when we were in the house building business. Our policy now is to get out of it as soon as we can in keeping with our needs with regard to the housing of our staff.

Mr. THOMAS (*Middlesex West*): Might I ask Mr. Chairman has the Auditor General any suggestions how further recovery could be made of this?

Mr. HENDERSON: Mr. Thomas, it does not look as though there is an opportunity to effect any further recovery. The point is raised because of the size of the loss that is being taken; it does cause one to wonder what judgment was exercised when this substantial investment was made which has now resulted over a relatively short period of years into quite a sizable loss. That being the case why were they built in the first place?

Mr. BALDWIN: Is there a liaison between the department, Mr. Labarge, and various provincial governments with regard to changes in routes, construction of bridges and so on which might lead to repetition of this. I can see why it happened. If in 1957 there was any reason for the department to believe that the route may be changed by the construction of the new bridge then, obviously, there was error on the part of the department constructing it. If there was no knowledge on the part of the department and they had every reason to anticipate that this route would be continued, of course, this is a different thing. This is over and done with. Now, how do you stand with the different provinces? Do you have sufficient liaison with them so that you are advised? If not, can you improve this liaison so you will be advised well in advance when there are changes of this kind?

Mr. LABARGE: I would say the cooperation over these last years has been excellent. I personally remember going down even before the plans on a highway from the United States up to Quebec City were on the drawing board; that is how soon we were informed of this, and the road was, in fact, designed to accommodate one of these middle of the road stations. Unless my officers have other information indicating that there are areas in which we can make further improvements, I would think my statement stands.

Mr. HENDERSON: We will have to give consideration to another case, the Coutts, Alberta, one in the 1965 report and not dissimilar to this, where 70 per cent of the cost is lost as a result of disposal of the properties.

The VICE-CHAIRMAN: There is only one observation I wanted to make, Mr. Labarge. In 1961 it was discovered that two houses were built at a cost of \$45,000 and one of them has never been occupied since its construction in 1957. Would this be due to a decrease there in your staff, poor planning, or just what would it be? Why were these two homes constructed and one of them had never been occupied.

Mr. LANGFORD: I would only be hazarding a guess but we build a type of home, which is a two or three bedroom home, which is expected to house an officer and his family. In this instance the house indeed was occupied by an officer, his wife and his children but he was subsequently transferred to the port at Sault St. Marie and his successor at the port was a bachelor. Not wanting to occupy this house by himself and pay the rent on it, he moved into a dormitory arrangement which we had at Pigeon River for single officers. This is the reason the house remained vacant for this extended period. This is the sort of

unforeseen situation which I think the department has had to face over the years. It was a matter of trying to provide housing for the staff and you never know just who is going to succeed someone else.

The VICE-CHAIRMAN: There is one other observation I wanted to make. Mr. Langford, I believe you stated that there were no services there. There were no services there at the time of construction, so I would suggest that perhaps they were built there with this information available. But yet the employees were not asked to remain there because there were no services. It does not seem that things are jibing.

Mr. LANGFORD: The point of my remarks, Mr. Chairman, was that because there were no services there—and this would be even an aggravated situation when our officers left there—there was no real prospect of realizing a profit or even a good sales price on these houses because it would seem that very few people would be interested in paying a reasonable sum for them in the light of the fact that they would be isolated in this area.

Mr. THOMAS (*Middlesex West*): Could not the department send bachelors to posts of that kind where they could live in a shack, do a little hunting and fishing and maybe they would not require a \$20,000 house.

Mr. LABARGE: That might be if it was a military force we had and could command that. As a matter of fact, there is a new changing going in with regard to a number of positions in our service where people are advised at the time of their occupation that they may be required to move; if they do not then this hinders their progress in the service. But this has never been a requirement. Normally there has been some advancement, some attraction to the position, where junior officers would go on the line to be a little more senior. And that is about the only incentive there has been. And then, of course, as young couples are prepared to go in the family multiplies and this incentive begins to dwindle because they encounter the problems of schooling and so on. Even in the case of one we will come to soon, there was the problem of hauling water over a long distance so that they could have something to drink that is potable. I think these were unusual circumstances where there was nothing in the area but the urgent need for customs service. Not just the location of the highway is important in this, or the shipping or creating of a new highway, but the routing of traffic; you get considerable changes in the routing of traffic perhaps because of the location of an inland warehouse or a business which begins to call for a demand of traffic into a particular area. You have these quick shifts. At this time we did not have the extra accommodation in the Canadian communities around to be able to house the people anywhere else but here. It is much like the situation we had with the veterans where we went into the building of veterans' homes. It seems to me that this is a straight economic thing. It is a question of judgment in the first instance. The judgment is based on the need. The need, I think, must be sanely and wisely determined by the department. I have every reason to believe that these were sane and sound judgments at the time. They filled the need. Now, many of us can build homes in certain places and all of a sudden find that when we come to resell them they have far less value than we expect. The question follows, "Why did you build it?" But there could be all kinds of reasons, health or something else. The question of a resale

here is very dependent on the market. I would be glad if it were possible to report profits to you on these sales, but this is not the kind of a situation where one can expect a capital gain. It just is not that kind of a place.

Mr. THOMAS (*Middlesex West*): It is not the kind of thing that is likely to occur again.

Mr. LANGFORD: I would hope not, no.

Mr. LABARGE: We do not foresee it happening again.

Mr. CAMERON (*High Park*): Do you think the requirement that these houses be moved as part of the sale is a sound decision? The reason given does not appeal to me as being 100 per cent sound. They were sold with the requirement that they be moved from the site because the old bridge was still in place and people might come across, I suppose, to evade payment of customs duties, and so on. How much would it add to the risk having the houses there and people living in them?

Mr. LABARGE: The question of risk sometimes is quite important and I think Mr. Langford will speak on that.

Mr. LANGFORD: As long as the bridge was there, sir, we would have had to maintain it and keep staff there if there was a community living in these houses that we had given up or had sold.

Mr. CAMERON (*High Park*): What about the sale price if you had left them there? You would not need a very large staff to control that, would you?

Mr. LANGFORD: Well, we would have to treat it as we would any other border point and probably maintain a minimum staff of three men for shift purposes.

Mr. THOMAS (*Middlesex West*): The cost of keeping one man there to watch the area would far outweigh any interest earnings on the capital loss.

Mr. CAMERON (*High Park*): I have one other series of questions. What did the person who bought them do with them? Did he move them and sell them, or do you take any interest in them after you sold them?

Mr. LABARGE: Once we turn them over to C.A.D.C. that is the end of our transaction.

Mr. HENDERSON: When the committee has C.S.D.C. officials before it, it would be interesting to ask them where the goods go after they have been sold. The department does not keep track after it has declared them surplus and they are taken over by the Disposal Corporation.

Mr. THOMAS (*Middlesex West*): Might I ask Mr. Labarge if anyone in his department has inspected this area to see if the houses actually have been moved and if there is a possibility of using this as an unsupervised port of entry?

Mr. LABARGE: A non-supervised area?

Mr. THOMAS (*Middlesex West*): Yes.

Mr. LABARGE: It is not a port of entry because the bridge has been removed.

The VICE-CHAIRMAN: Mr. Long you have an observation, I believe?

Mr. LONG: Well, I was going to mention to you that you had had information that the two houses were still there. There are the two points here. One is the building of the houses in the first place. This is the main highway from Fort William to Duluth. It is not a new development at all. The customs officers are now living in Fort William and are being paid a mileage allowance to commute to and from their work on the bridge. So far as the old bridge is concerned it is either closed or it is open. If the bridge is closed, what difference would it make whether a house happens to be near the end of it or whether it is anywhere in that eleven miles between it and the new bridge. There was a road in there. Surely it would have been easier to have blocked that bridge effectively in some way so that a person could not cross it. So far as the use of the community is concerned, of course, as Mr. Lefebvre says, there were no services when it was built up there. There was water supply for the houses which could have served, I presume. I imagine the telephone and electric lines were in there for that eleven miles. But be that as it may, what could the department have lost by declaring the land and the houses together. Perhaps they would not have got much more, but this way they made sure they did not get the maximum because requiring the houses to be moved certainly cuts down on what you get for them.

The VICE-CHAIRMAN: Would one of you gentlemen be able to provide the committee with an idea of how much it cost the buyers to move the homes?

Mr. LABARGE: Well, I do not know whether we can obtain this from Crown Assets Disposal Corporation. I doubt it. We would have to go to the buyers to ascertain their cost.

The VICE-CHAIRMAN: Because it says here that the thought of moving them by the department was considered but because of the excessive costs of such an operation it was decided to abandon the houses and their related buildings. Would you have the figures of the estimated cost of moving?

Mr. LABARGE: It was \$40,000.

The VICE-CHAIRMAN: Yes, \$40,000.

Mr. LABARGE: That is, to move them to the point eleven miles east, the new site.

The VICE-CHAIRMAN: Forty thousand dollars to protect an investment of \$143,000, so we could still net \$103,000.

Mr. LANGFORD: I might add that only \$93,000 of that was customs and excise property, in strict fact; the balance was citizenship and immigration. There was a \$50,000 investment directly in those buildings at that port.

Mr. THOMAS (*Middlesex West*): Well, could we assume, Mr. Chairman, that at the site of the new bridge there still would be no schools or facilities for education of children, doctor's services and so on?

Mr. LANGFORD: The officers, as I understand it, are now able to commute over good roads and live in a well established community.

Mr. THOMAS (*Middlesex West*): If the buildings had been moved to the new bridge site then, of course, I assume that the officers would have been expected to live in them.

Mr. LANGFORD: They were asked whether they wished to live at the new site if the buildings were moved and they expressed a desire to live in the established communities of Port Arthur and Fort William.

Mr. CAMERON (*High Park*): Should the guiding criterion be what they want? Is not the guiding criterion to have the treasury of Canada as much money as it can?

Mr. LANGFORD: I would not suggest that it should be a criterion but it certainly is a matter for consideration, I think sir, when one keeps in mind the isolated conditions under which these men are working and the whole question of morale. We can hardly command them to live in one place or another.

Mr. CAMERON (*High Park*): They may be better off at the old site.

Mr. LANGFORD: Did you ask, were they any better off in the old site?

Mr. CAMERON (*High Park*): Yes.

Mr. LANGFORD: I do not think they were.

Mr. CAMERON (*High Park*): I am just trying to find out where the balance is and where you could save some money.

Mr. LANGFORD: The only thing that could be said in respect of the relative situations between the old and new sites with regard to the staff itself is that in the new site it is easier for them to commute to Fort William and Port Arthur than it was in the old location.

Mr. CAMERON (*High Park*): I think that sounds feasible.

The VICE-CHAIRMAN: Shall we go on to the next item until such time as we get the Crown Assets officials here and find out some more? I will now call paragraph 76.

76. *Drawback paid on goods destroyed after release from Customs.* Order in Council P.C. 1961-1135 of August 9, 1961 established regulations governing drawbacks of customs duties, sales tax and excise taxes paid on goods imported and subsequently exported or destroyed.

We have been informed that the Order was passed in accordance with sections 275 and 277 of the Customs Act, R.S., c. 58, as amended. These sections are as follows:

"275. (1) The Governor in Council may, under regulations made by him for that purpose,

- (a) allow, on the exportation of goods which have been imported into Canada and on which a duty of customs has been paid, a drawback equal to the duty so paid with such deduction therefrom as is provided in such regulations; and
- (b) allow a drawback equal to the duty paid, with such deduction therefrom as is provided in such regulations, or a specific sum in lieu of such drawback, in respect of materials used in, wrought into or attached to goods exported, or in respect of materials (not to include fuel or plant equipment) consumed in the manufacture or production of any such goods.

(2) The period within which such drawback may be allowed, after the time when the duty was paid, shall be limited in such regulations."

"277. The Governor in Council may interpret, limit or extend the meaning of the conditions upon which it is provided in any Act imposing duties of Customs that any article may be imported free of duty for special purposes, or for particular objects or interests; and may make regulations for declaring or defining what cases shall come within the conditions of such Act, and to what objects or interests of an analogous nature the same shall apply and extend, and may direct the payment or non-payment of duty in any such case, or the remission thereof by way of drawback, if such duty has been paid."

The Customs Act makes no specific or general reference to imported goods destroyed in Canada but section 22 (6) of the Financial Administration Act as amended directs that:

"No tax paid to Her Majesty on any goods shall be remitted by reason only that after the payment of the tax and after release from the control of customs or excise officers, the goods were lost or destroyed."

Because of this the Audit Office entertains doubt as to the validity of section 3 (1) (a) (ii) of Order in Council P.C. 1961-1135 providing for the payment of a drawback on goods "destroyed in Canada at the expense of the owner under Customs supervision".

The case which attracted attention to this matter involved a refund of \$2,525, representing a 90 per cent drawback of customs duty paid on imported machinery which after duties were paid and after release from Customs but before actual use, was destroyed by fire in the warehouse of the importer. The goods were recognizable after the fire to the extent that the serial numbers could be deciphered but the machines were not considered usable. Later they were completely destroyed by sledge hammer under supervision of a Customs officer.

In our opinion it is questionable whether the Governor in Council under authority of the Customs Act may authorize drawback of all or part of the duties paid on goods which are destroyed when section 22 (6) of the Financial Administration Act expressly forbids the Governor in Council to remit the tax under the same circumstances.

Mr. HENDERSON: I would suggest that because we have a similar paragraph in the 1965 Report, namely 94, that we might deal with both at this time, one being a continuation of the other.

94. *Drawback paid on goods destroyed after release from Customs.* In the 1964 Report (paragraph 76) we questioned the right of the Governor in Council to authorize under authority of the Customs Act a drawback of all or part of the duties paid on goods which are destroyed after release from Customs, when section 22(6) of the Financial Administration Act expressly forbids the Governor in Council to remit the tax under the same circumstances.

On the recommendation of the Department, the Governor in Council has since revoked the offending regulation but no steps have been taken to recover the amount of \$2,525 which was remitted illegally.

Here, in paragraph 76 we questioned the right of the Governor in Council under authority of the Customs Act to authorize a refund or to alter any customs duty paid on goods which are destroyed after release from customs.

Section 22(6) of the Financial Administration Act expressly forbids the Governor in Council to remit the tax under the same circumstances. As this note indicates, the case which attracted our attention involved a refund of \$2,525 representing a 90 per cent drawback of customs duty paid on imported machinery, which after duties were paid and after release from customs but before actual use was destroyed by fire in the warehouse of the importer. The goods were recognizable after the fire to the extent that the serial numbers could be deciphered but the machines were not considered usable. Later they were completely destroyed by sledge hammer under the supervision of a customs officer. Subsequent to our bringing this note to attention the department recommended to the Treasury Board that this offending regulation be revoked and the Governor in Council took this action. However—and this is stated in the 1965 note under paragraph 94—no steps were taken by the department to recover the amount of \$2,525 which had consequently been remitted illegally.

Mr. HIND: The account which Mr. Henderson has just given you is a true statement of what has transpired. But I think it must be recalled at this time that at the time in question the department was operating under an order in council which was believed to be valid and legal. As is usual in such cases, the contents of the order had been approved by law officers of the crown. The importer availed himself of the provisions of this order and complied with its requirements. Acting in good faith he permitted the destruction of the goods under customs supervision and at his own expense. Following such destruction he recovered from the department 90 per cent of the duty paid which was in accordance with the terms of the order in council. This means that in addition to suffering the loss of the goods he also absorbed 10 per cent of the duty paid. In all the circumstances it seems unreasonable and unfair at this late date to ask the importer to rebate the \$2,525 to the crown, the more so as at the time of destruction it was presumably open to him under the law at that time to export the goods and recover the 90 per cent of the duty that had been paid.

Mr. BIGG: Did you export the burnt engines or whatever it was.

Mr. HIND: No sir. Under the order in council at that time, provided the engines were destroyed under customs supervision, the department had the authority to rebate 90 per cent of the duty that had been paid. The destroyed engines were not required to be exported.

Mr. BIGG: No, but it seems to me that what we are doing here is acting as kind of an insurance agency. This order is rebating him as if he was, you might say, under some sort of a government insurance plan where if he had a fire in his warehouse he did not have to pay a tax. This is a \$2,500 grant to this firm, to all intents and purposes. I could see some logic in it if he had to replace the machinery. Suppose he had bought new machinery and he had the misfortune of having a fire, had to replace all the machinery and pay the tax again there might be some principle in that, particularly if it was an important industry which we needed in Canada—some new industry starting up and this was

putting an unnatural burden on, as I said, a useful industry. But, I do not see that we have any right to allow this rebate purely on a fire underwriters—

Mr. HIND: I think it should be recalled that for a long time now we have had authority by order in council to rebate duties paid when goods are either exported from the country or in lieu of exportation are destroyed under customs supervision. This is a choice which is open to importers if they find themselves with goods on hand which are surplus to their requirements or which are obsolete. We currently have order in council authority for this. It has not been challenged to date.

Mr. BIGG: Well, these are not the same circumstances. If they come to the customs department and said, "Look, there is a machine; will you please put the axe to it." I do not think that is the same as saying, "I just had a fire in my place and now I am moving around in the ashes and I find that I can identify an old machine; now, let us go and put the hammer to that and get \$2,500 back from the government." I really do not see it.

Mr. HENDERSON: Mr. Hind, I think you stated that you considered that this was legally in order, that you checked with your legal officers.

Mr. HIND: No sir, I did not intend to convey that. I hope I did not say it

Mr. HENDERSON: In any event, you may recall this was one case in which we questioned the right of the Governor in Council to authorize this remission and I believe it was at my suggestion that the deputy minister asked the deputy attorney general for a legal opinion. You are familiar with what the deputy attorney general said in that legal opinion which supported, of course, the position that I took.

Mr. HIND: I think perhaps there may be a little misunderstanding here, Mr. Henderson, and perhaps if I just read a couple of paragraphs it might become a little clearer in the sense that I will use different wording.

This case involves goods which were intentionally destroyed under customs supervision following which a drawback of a portion of a duty was repaid to the importer under an order in council which was in general use at that time. In his 1964 report the Auditor General questioned the legality of the order in council in cases of this kind. As a result of these contentions the department arranged for the cancellation of the order and the substitution of a new order in council to take its place. It is assumed that the new order meets with the approval of the Auditor General. The only point still outstanding, as is mentioned in paragraph 94 of the 1965 report, is the drawback payment which originally gave rise to the question. The Auditor General points out that no steps have been taken to recover this amount of \$2,525 from the importer.

Now, I carry on from there to say that at the time we had rebated 90 per cent of the duty under an order in council which we felt was valid and legal. We do not think now that the importer having complied with the terms of the order at that time should be called upon at this late date to rebate the \$2,525 to the crown. Just as a matter of equity, this is the point I am trying to make.

Mr. HENDERSON: From the standpoint of equity probably the members might share that view. I felt, having established that it was being remitted illegally, it was logical that they look for a refund.

The VICE-CHAIRMAN: I was wondering if I could make one observation on this, Mr. Henderson? Is there no fire coverage insurance at all carried by the department on goods that belong to customers?

Mr. HIND: I do not think that this equipment was on customs' premises.

The VICE-CHAIRMAN: These were engines, were they?

Mr. HIND: Yes sir.

The VICE-CHAIRMAN: Would the person who owned these engines be able to have insurance or would the people who owned the warehouse have insurance on these goods normally speaking, I mean.

Mr. HIND: I am afraid I do not have that answer. I have been handed a document and this portion has been marked. We have a drawback branch which audits these claims for the recovery of goods in such circumstances. During the audit of the claim the status of the goods from an insurance standpoint was ascertained and the claimant's insurance company indicated that they had no financial interest in the drawback payment.

The VICE-CHAIRMAN: In other words, I tend to think that the person who owned the engines should not be held liable for \$2,500. I am thinking this way because it could happen to me or you, or anybody else; but perhaps the department instead of refunding it should have gone after the insurance company so that the persons operating the warehouse would be responsible and not the department.

Mr. LONG: Mr. Lefebvre, these were in the possession of the importer. He would have them covered by his own insurance.

The VICE-CHAIRMAN: Well, then, his insurance would not pay if there was destruction by fire?

Mr. LONG: Oh, I think it would.

The VICE-CHAIRMAN: I think that is the root of the matter right there. Why should the government pay out if he is covered by insurance?

Mr. LONG: These were in fact electric motors, I believe, with serial numbers on them?

Mr. HIND: They were described as engines, sir; they could well be motors.

Mr. LONG: It was only by accident that you could identify these; the serial numbers were still there. The fire actually destroyed them. If this had been something that had melted and run together he would not have had a chance. I suppose some money was spent in taking a sledge hammer to them but they had been effectively destroyed before that. The F.A. act says the governor in council cannot do what was done.

The VICE-CHAIRMAN: Well, who did finally authorize that they be destroyed if nobody has the authority to do so?

Mr. LABARGE: There was an existing order in council for some time which everybody took in good faith. Everybody acted on it in good faith as they did in thousands of cases while it was in existence. The Auditor General pointed out that the order in council was invalid after this instance had come about; so, the question was do you reverse it for the case that was brought to your attention; do

you reverse it for all cases prior to that, or do you feel that the fair thing is to draw the line at the point where people henceforth are going to operate under a different order in council.

Mr. BIGG: I am not at all satisfied that that is the case. I think that what happened here was that when these machines were destroyed by fire they looked for every opportunity to recoup their financial loss and they thought they had a technical point by bringing in the customs officials and putting the hammer to something which was already effectively destroyed. I cannot take any other reading out of it but that.

Mr. LABARGE: You take it as a single instance.

Mr. BIGG: Well, this is the only instance which you are talking about that I know of where there was a retainment made. Is that right?

Mr. LABARGE: Oh no. This is quite a common thing.

Mr. BIGG: No, but under these circumstances. Do you mean to tell me that there are many cases where a man's power plant is destroyed, say, and then they go in with the customs man and say well, we will put the hammer on it in order to make it technically possible to give him a rebate? I think this is a very isolated case. And where there is a bona fide case of hauling in the inspector and saying here is the machinery we bought, it would be cheaper to destroy it by putting the hammer to it and get back our tax and not be in competition with Canadian manufacturers and that sort of thing. I presume that is what the tax is for or else it would be tax free. If this was farm machinery there would be no problem at all because it probably would be tax free. But I imagine if this machinery was in competition with business somewhere it would be unfair to other businesses to allow a tax rebate of this type by what I think is a devious plan to really put the hammer on it after it has already been destroyed and say now we can recoup from the government. Quite apart from giving him rebate, no matter how often this act has been used to help a man in bona fide cases, I think that we are paying a premium for skullduggery. I do not know any polite word for it. I would not say that the department should go ahead and keep on doing that.

Mr. HIND: Do you know, Mr. Bigg, that these machines had never been used. They had not been sold as yet.

Mr. BIGG: That is not the point. What I do not like is the idea of pretending to be destroying something which is already destroyed in order to get a tax rebate. Unless it was arson, there was no intention on the owner of these machines to destroy them, and I think the Auditor General is quite right that this is \$2,500 which is properly owing to the Crown.

Mr. HENDERSON: This also tends, Mr. Bigg, to be an attraction to importers who, having brought in some machinery for a special purpose, that special purpose having been served, no longer have need of that equipment and therefore would like to have it destroyed and to recapture the duty. The line between what constituted use and so forth can be extremely narrow. We have noticed several cases along these lines and I am glad to hear that you take the position you do because it is something we feel must be watched.

Mr. BIGG: I think it could be abused and abused again, and if we sanctioned this it would set a precedent.

The VICE-CHAIRMAN: I think your point is well taken, Mr. Bigg.

Mr. BIGG: I would certainly say that if you think the department were a party to this in some way, being a little bit lax in the interpretation of the regulations, and if you do not like to recover this again from the company, I would certainly put up a stop sign and say this can in no way be interpreted as a precedent. Also, when there are fires we do not want them coming along and pretending to destroy the equipment and saying they want to recover under this section of the act. My view is if you want legislation to clarify this point perhaps we could bring it up in our recommendation, but I do not like it.

Mr. LABARGE: I continue out loud perhaps indirectly questioning my own officers, but it seems to me that this man had the right even after the fire to export and claim drawback under the regulations as they existed.

Mr. BIGG: A burnt out machine?

Mr. LABARGE: Yes.

Mr. BIGG: Why?

Mr. LABARGE: To get the drawback.

Mr. CAMERON (*High Park*): Would the reason be because it had never been in use?

Mr. LABARGE: The circumstances.

Mr. CAMERON (*High Park*): If it had been used one day he was out of luck.

The CHAIRMAN: I do not know but I cannot see the difference between importing a machine or a car. If you buy, say, a big imported car and you pay \$5,000 or \$6,000 for it, which includes all the import taxes and everything. If you drive it off the lot and across the street, if you happen to live there and it burns, without even a half mile on it, there is no chance of getting any tax back. If you have not covered it sufficiently with insurance, that is just too bad. So I cannot see the difference between that case and this case here.

Mr. LABARGE: I would be inclined to agree. I think that is a good illustration.

The VICE-CHAIRMAN: Are there any more questions on this item?

Mr. BIGG: I do not think that the intention of the lawmakers was that the machinery had to be used and you had to have a profit out of it before the tax is forfeited to the crown forever. It may have been, but I do not think so. If it is so I think we can clarify that and say it is all right. But it would mean that wherever a machine was not used under these circumstances he is entitled to the rebate of the tax. But, I would be a little bit afraid.

Mr. CAMERON (*High Park*): Going one step further, following Mr. LeFebvre's illustration, why could not the person who bought this automobile then return it to the source that it came from and claim the refund on the basis of what you have said about this particular—

Mr. LABARGE: In this case I am also advised that there is a distinction; between a user and a dealer.

Mr. CAMERON (*High Park*): You said if he had not used it, send it back. Well, Mr. Lefebvre used his car to drive only half a mile or maybe only across the street. Why cannot he send the remains back? What is the answer to it?

Mr. LABARGE: Well, that would probably constitute use in Canada. You may be able to draw a line between those two cases.

Mr. CAMERON (*High Park*): A narrow line.

Mr. LABARGE: It is about half a mile.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, have the statute regulations been changed in regard to cases of this kind?

The CHAIRMAN: I think Mr. Long has something to add to this too before you speak, Mr. Thomas.

Mr. LONG: I think the answer to that, Mr. Thomas, as we said in the note, is that the standing order has been eliminated. Mr. Crowley has it here.

Mr. CROWLEY: You see, what happened was that under the old order in council that Mr. Labarge mentioned that was done under section 275 of the Customs Act. The Auditor General, Mr. Henderson, pointed out that while they had authority to export they had no authority to destroy. The department, as Mr. Henderson suggested, sent the order in council to the Department of Justice and they agreed with the Auditor General, as Mr. Labarge has mentioned, and they ruled the order in council *ultra vires*. In other words, there is nothing in the Customs Act to permit refund on goods destroyed. So the department then revoked the offending order in council and passed two, one to legalize the export under the Customs Act 275—in other words, it was a repetition—but the other order that permitted goods to be destroyed and permit refunds, could not be passed under the Customs Act. They used section 22 of the Financial Administration Act, and this particular order in council now gives them authority to pay refunds. For instance, number (2) says, "The goods are obsolete or surplus to requirements in Canada; the goods have not been used in Canada for any purpose; the goods are exported to the country from which they were imported or destroyed in Canada at the expense of the owner under customs supervision."

As the Auditor General mentioned, we have no authority under the Customs Act, so they have fallen back now and legalized it under section 22 of the Financial Administration Act.

Mr. BIGG: Suppose it all happened tomorrow and fire destroyed this electrical equipment; do you think that you could get a refund under the act as it now reads?

Mr. LONG: Section 22 of the Financial Administration Act starts out:

The Governor in Council, on the recommendation of the Treasury Board, wherever he considers it in the public interest, may remit any tax, fee or penalty.

But, subsection (6) says:

No tax paid to Her Majesty on any goods shall be remitted by reason only that after the payment of the tax and after release from the control of customs or excise officers, the goods were lost or destroyed.

Now this section has been in here for many years, and in their wisdom at that time they ruled out a rebate of tax for the reason only that the goods were destroyed.

Mr. BIGG: You still have not settled that item of \$2,500.

Mr. HENDERSON: That is something you might want to consider. It seems rather hard lines to ask the chap to repay it provided henceforth that it is not remitted.

Mr. BALDWIN: I was looking at section 22.

Mr. HENDERSON: I am looking forward to a discussion with you on that Mr. Baldwin. We have our eye on that too.

The CHAIRMAN: The next item?

Mr. HENDERSON: The next paragraph 120 accounts receivable. I suggest we just leave that because the same paragraph will come up in the 1965 report and we can cover both at the same time. So now we come to the 1965 report and the first one is paragraph 90 on page 58.

The VICE-CHAIRMAN: We now will discuss paragraph 90 on page 58 of the 1965 report.

90. *Departmental practices which lack statutory sanction.* In its Eighth Report 1964 the Public Accounts Committee recommended that four practices being followed by the Customs and Excise Division of the Department of National Revenue should receive statutory sanction if they are to be continued (see Appendix 1 item 37). These four practices concern:

- (a) release of goods under customs collector's permission;
- (b) sales of goods unclaimed at Customs;
- (c) duties and taxes on surplus United States Government property sold in Canada; and
- (d) determination of "sale price" for sales tax purposes.

Three additional departmental practices which lack statutory sanction were noted in our 1964 Report, as follows:

paragraph 70—remission of duties on certain motor vehicles and parts;

paragraph 72—refunds of duties and taxes on estimated basis; and
paragraph 73—refund of duty paid on goods diverted to use other than that for which they were imported.

There were no amendments to the Customs Act during the year and the seven departmental practices referred to above as lacking statutory sanction were continued throughout the year. However an amendment to the Customs Act in 1965-66 (1965, c.16) gave statutory sanction to items (a) and (c) above. The amendment also provided statutory sanction to the practice referred to in paragraph 70 of our 1964 Report dealing with "remission of duties on certain motor vehicles and parts".

Mr. HENDERSON: This paragraph has to do with departmental practices which lack statutory sanction. On page 58 you will notice the four practices listed which this committee had a good deal to say about in its eighth report,

1964. You will see (a) (b) (c) and (d). As you know amendments to the Customs Act had been made in 1965-66 which had given statutory sanction to (a) and (c); in other words two of these had been cleaned up. You had witnesses present in 1964 and so we have made some progress here. However I think the department may have some information to give us on (b); that is sales of goods unclaimed at customs. Perhaps Mr. Labarge would speak to that.

The VICE-CHAIRMAN: Do you have information on this Mr. Labarge?

Mr. WINCH: If I have your permission I want to make a statement on this.

Mr. HENDERSON: You are speaking on (d) I think. That is the big one that is still outstanding, determination of "sale price" for sales tax purpose which is still not remedied in any way.

Mr. WINCH: Mr. Chairman, would you and the committee allow me to make a short statement on paragraph 90(d). I am most interested in this section and I would like to draw to the attention of the committee that both the Auditor General and myself raised this matter on determination of sale price for sales tax purposes before our committee in 1964. At that time I did not question the intent of the policy of the department in what they were doing by regulation. But I did question their authority for what they were doing because sir, as I pointed out at that time, and I placed the evidence in detail before the committee in 1964, there were two court judgments and the courts of Canada said that the Department of Revenue did not have the power to do what they were doing by regulation with regard to the sales tax being charged to a manufacturer who was selling directly to the user. Now, I do not want to go into all that this afternoon, sir, but I would like, just very briefly, in order to highlight it, to give you without the details one of those judgments which says:

Section 99 of the Act provides that the Minister of Finance or the Minister of National Revenue may make such regulations as he deems necessary or advisable for carrying out the provisions of this act. But it was submitted, and I think properly, that this does not permit regulations which would alter the basis upon which the per cent tax is to be paid, namely sale price. No doubt the department found that hardships arose out of a strict adherence to the provision of the subsection to the act. But if so that would be reason for altering or amending the act and not for bureaucratic dogmatism.

Now sir, at the 1964 meeting of this committee when this matter was raised by the hon. gentleman and myself Mr. Sim, the deputy minister was before us. I think, sir, my memory is completely correct when I say that Mr. Sim said that the policy was good but he admitted that there was not statutory authority. Now sir, that was in 1964. Now we have the report of the Auditor General of 1965; we are now in June of 1966 and to the best of my knowledge, I stand to be corrected, in this period of two years there never has been any amending legislation to correct the situation, to draw to the attention of this committee, to draw to the attention of parliament, and yet two judges say they have not the power to do it. Yet, two years later they are still doing it. Now, I want to add to that, and I completely agree with the purport, the intention of the department, that they have not got and they have never had the statutory authority. No action has been taken. But now, sir, in the past two years, in my estimation, they are compounding illegality on illegality. Since this matter was raised

before this committee in 1964, the department continues to issue not one but voluminous changes, varying changes, on the sales tax from manufacturer to a user without going through the straight wholesale or retail. Now, I could have brought many copies but I asked the department and they just gave me one copy. I want to show you what is happening. I have before me now circular ET 81, issued by the Department of National Revenue, excise department. This deals with the matter of furniture, changing the tax structure. Now, this was issued from Ottawa on the 17th of June, 1964.

Mr. Chairman, I would like to draw to your attention clause No. 12, a most intriguing clause, which says:

Computation of tax on the value determined by this instruction becomes effective only from the date its use is commenced and never with retroactive effect.

So here we have a tax regulation, a tax law, illegal though it is, going out to thousands across Canada and it says:

Computation of tax on the value determined by this instruction becomes effective—

Not when this regulation goes into effect, but—

—becomes effective only from the date its use is commenced and never with retroactive effect.

Mr. Chairman, what has happened? The interpretation which I have received from accountants and legal authorities is that the tax payment is not from—on this one itself—June 17, 1964 it is from the time the manufacturer discovered what the new tax rate was, and not to have any retroactive effect. Mr. Chairman, I have discovered the average manufacturer does not know anything about this. So, what occurred, to my own knowledge was that wide awake chartered accountants some 18 months after this was issued discovered that they had been paying a lot more than they should have to the Department of National Revenue. Now it is my contention, Mr. Chairman, that in all probability hundreds if not thousands of manufacturers and industrialists in Canada have been paying more than they should have been paying to the Department of National Revenue. And, having paid it surely the Department of National Revenue, when they receive a payment more than should have been paid, should have drawn it to the attention of the industry in Canada and rebated. To my knowledge, sir, that is not being done.

Now, I have one more point sir. I do not want to hold you any longer, but I think it is very important. One point more is, effective only from the date its use is commenced and never with retroactive effect. Now that is definite; never with retroactive effect. Now the retroactive effect can only mean from the time this regulation came in on changing the sales tax, but it also means not retroactive from the time that the accountant or the company catches up with it to try to get back their overpayment for 18 months. They do not even follow their own illegal operations on an illegal document which has no statutory effect. I can prove it sir. I am most interested in this. I have spoken to three accountants in Vancouver and in the past six months they have caught up with this. They have been paying a lot more than they should have been paying. They got into an argument with the Department of National Revenue and they said that they were entitled to get it retroactive to the time the order came out.

This says not retroactive. The three companies that I know about had collected retroactive from the time that this went into effect. You add it up and it amounts to a few thousand dollars. If I know of three companies, God knows how much our manufacturers are being overcharged illegally without any notification, without any redress, unless they have got a clever accountant that can catch up with it.

Mr. Chairman, you see the point which I think is of the utmost importance. Two years ago it was admitted by the deputy minister that they had no statutory authority. No change had been made; they have continued now beyond what they were doing two years ago, including that most extraordinary clause 12 which they themselves do not apply—they do not return money when they are getting more than they should because of the change, but also when they say it is not retroactive. So when a clever accountant draws to their attention they do pay the retroactive money overpaid. Now, I think the situation is so extraordinary I would like, and I know the committee would like to have an explanation from the officials of the department.

Mr. LABARGE: Mr. Chairman, this is quite a big subject, as you can see. On the first point, about the law itself, it is true there have been cases that have gone as far as the Supreme Court and there have been varying judgements on the legality of this. There have been cases in which it is for and others in which it is against and the Supreme Court decision in the case of *Laboratoire Marois* was split: it was two to two and the fifth judge did not pronounce himself upon it, and that, I think, was in 1955. We are not arguing against the desirability of this being put into legislation; we never have. We have endeavoured to promote a change in the law at a time when the statute was practically immobilized because of the royal commission which is looking into the whole tax structure and into this section, particularly in terms of the sales tax. Now, let me say that I would be pleased, and I think practically everybody in the government would be pleased, if the ingenuity of the royal commission is such as to find the kind of specific legislation which would meet all the points which Mr. Winch has put forward. Many people have said, just put in there that the minister shall have the right to set values for sale price when the goods are sold at different levels than they are from the manufacturer. Well, that just means that we have to turn around and put out the same number of industrial circulars dealing with specific goods as we have in the past, and I would like to assure the committee that there is no group more ardent than ours with respect to the desire for a change. Now, it is not just a change with respect to what we do and are able to do, but it must also contemplate a method of appeal, and this is one of the chief problems in this setting of a determined price or setting of values because it is based on examination of a complete industry and the determination of the margin between the different levels of sale. It is a very intricate and skilled job, and you can appreciate that everybody falls within the industry who is concerned. For him to make an appeal he must produce or have produced all the information relating to one of his competitors or all of his competitors to show that there is inequity; this is the difficulty in trying to arrange an appeal at which somebody must give the confidential information of his own business. I am just pointing this out as one of the areas of difficulty in drafting an appeal from this. The circular from date of use and never with retroactive effect does

seem to lend itself to interpreting it one way or the other. The retroactive effect is normally back to the date beyond that of the circular date.

Mr. WINCH: That is not what it says.

Mr. LABARGE: I agree with this. This could be debated.

Now, as to the number of people affected, I am surprised that there should be in your minds so many who were not informed of this. I hope you are not speaking about people who never took out a licence with us; they must have or they would not be paying taxes to us. Once they are in our books they are the recipients by registered mail of all these directives. On top of that all the trade circulars that they might be interested in. The Canadian Manufacturers Association and so on are all in possession of these, plus all our officers. Now, another thing is that they do not have to depend entirely on their own accountants for fair treatment, and it is not infrequent that our auditors going in and finding this kind of situation give them the same kind of advice and the same results as their own accountants.

Mr. WINCH: I told you that I personally know of three manufacturers in British Columbia. Now, one—and this amounted to a few thousand dollars—had been paying since this came into effect on June 17; it was an exorbitant amount according to this regulation and his auditor only caught it some six months ago. So for 18 months they had been paying considerably more because the reduction was down to 33 per cent on the discount allowance. Are you telling this committee that in a period of 18 months when this cheque came in on the sales tax that you did not know that he was paying more than he should and did not notify them? What I am telling you about this one manufacturer also applies to the other two.

Mr. LABARGE: No, there would be no way of knowing that because the simple return he makes is a self reporting indication of the amount of tax and the amount of sales he made. That is all. And this is audited. It is in his interest, of course, to give us the figures which to the best of his knowledge are correct. Now, I would say, since I do not want to overdo either hardness of heart or weep in sympathy, that this man's position normally in these circumstances is that he has passed the tax on to the consumer, so any amount which he puts in under the guise of tax or under the colour of tax to be paid to the revenue. Now, we have difficulty in letting people intentionally or otherwise pay us more tax and collect more tax in the hope that there will be a large refund coming to them at the end. This difference is not really theirs. It has come out of the ordinary consumer.

Mr. WINCH: What about the competitive position of one who knows this law and one who does not.

Mr. LABARGE: This may be in some cases but the competitive position soon drives them into us to see; if the competitive position is such that they are suffering this is one of the things that drives those who never got it before to us. Now, I am not making excuses for the thing, but I just want to put it in a certain perspective.

Mr. WINCH: The other members may have some questions. I would like to ask just what is your interpretation of your clause 12, and what are you going to do about it?

Mr. LABARGE: I have not got it. Mr. Mills, have you got clause 12?

Mr. WINCH: Can you, sir, in any way at all interpret that differently than I?

Mr. LABARGE: Well, shall we find out what the interpretation is that the department has been putting on it? Do you know, Mr. Mills?

Mr. A. P. MILLS (*Director, Excise Tax Administration, Customs and Excise Division, National Revenue Department*): I am very much surprised to hear that we have given refunds. That is all I can say.

Mr. WINCH: You have. I can assure you you have paid refunds.

Mr. MILLS: I say I am very much surprised to hear this. I do not know of any.

Mr. WINCH: Well, I can assure you that I know of three personally and I hope you are not going to go after them now and get that money back; otherwise I am going to be in trouble. So your interpretation of the word "use" means at the time that you discover it?

Mr. MILLS: That is right.

Mr. WINCH: So there you are, sir. This now confirms what I told you.

Mr. BIGG: I was wondering what you meant by driving these people to them. Did you mean that they could just carry on for years paying this extra tax unless they find out that there is a reduction which they could apply for and get a ruling on. Is that correct?

Mr. LABARGE: No. It was the question with regard to the competitor.

Mr. BIGG: Mr. Winch was saying that if one company knows this they can afford to sell cheaper to the consumer and then the competitors ask themselves why he is doing that, so they run around and find out that he is saving money on his sales tax. Therefore they come to you and ask to have the same deal that he has been having for 18 months perhaps, according to this, or more. So this is not retroactive. You cannot say, I want the same deal that Smith got. So what you are really saying to these fellows is, look to your accounting and make sure that you start your reduction if possible immediately after the putting out of this circular. Is that right?

Mr. LABARGE: Yes.

Mr. BIGG: It is pretty difficult. I do not see how you can look into the individual business arrangements of every firm. I think that the circular should be clear as to what you mean by retroactive, whether it means from the date of the issuing of the circular or from the date that he makes the application for the reduced rate.

Mr. WINCH: According to your friend here, it is from the date that he discovers it and makes application. It is not retroactive beyond that according to your interpretation of it.

Mr. LABARGE: That is right.

Mr. WINCH: Although you are doing it, if they get in touch with you. I do not want to go back now on these people, but I assure you that I just do not understand how you operate?

Mr. LABARGE: I always hesitate to talk about individual cases.

Mr. BIGG: I can understand you do not want to.

Mr. WINCH: I assure you I have definite information on that.

Mr. LABARGE: I am not denying it and there may be certain circumstances in there which justify a refund, such as a man not charging the rate but paying the rate to us. This makes a big difference because if he charges the rate to his customers and collects the tax it is ours, the government's. But if he does not charge the rate but he pays more to us out of his pocket, then there is a different situation. He has overpaid his tax and there is a refund. So without seeing an individual case I would not want to pronounce myself in it under these circumstances.

Mr. BIGG: I would like to make a plea that we clarify the papers that go out so that he knows how much to charge his customers and exactly where he stands legally so that he does not get into unnecessary law suits.

Mr. LABARGE: I think that there is just that one sentence at issue there but, as I say, we do everything possible to get these directives into his hands by registered mail; we get receipt cards back; we have the auditors come in; we have the publication in not perhaps enough journals and magazines and associations; papers but we endeavour to get out to all these people.

Mr. WINCH: Without mentioning names, I will just read this to you "As an accountant for an X manufacturing concern I disputed not getting the discount of 33½ per cent on specially made furniture for the period between October 1, 1963 and July 1965. I was successful in my efforts; the discount was granted and a refund was made."

Mr. "Y" of another firm, is a manufacturer of custom built furniture. When the circular of September 5 came out he was required to pay the full 11 per cent tax. Through a series of circumstances he did not start taking the 33½ per cent discount allowed by the June 17, 1964 circular. This situation is in the process of being corrected and I have been advised that when he complies with certain procedural requirements he will obtain a full discount and refund for the whole period.

Those are just two, sir.

The VICE-CHAIRMAN: Maybe Mr. Henderson could add a few words?

Mr. HENDERSON: Mr. Chairman, I might just tell the members that this is a subject on which my office has reported to the house, beginning with the year 1945, so it is not exactly a new development. The whole area was examined, you may recall, by a sales tax committee convened in 1950 known as the Carter committee because the chairman was Mr. Kenneth LeM. Carter who is the Chairman of the present Royal Commission on Taxation. Mr. Carter and his associates, in their report which I have here, in referring to this act, meaning the act in question, said:

The act does not appear to authorize the minister to vary actual selling prices or to impute wholesale prices when they do not exist. It is apparent that without such authority and general rules as to the determination of value there can be no useful right of appeal.

Since that time Mr. Carter himself has written several articles on this and undoubtedly will be making further reference to it; in fact, he mentioned to me that he would be doing so in the report that he is presently compiling. But we came right back to the point at which we started, namely the necessity, as we see it, for having some form of statutory approval. Mr. Labarge has referred to the difficulties in drafting it and I do not know whether any effort has been made or any study or thought given to the form which that drafting might take with a view to getting legislative approval. Would it be a proper question to ask Mr. Labarge whether any study group or committee within his department has in fact been wrestling with this problem with a view to coming up with something?

Mr. LABARGE: Following the issuance of the Carter committee report, with which I have had something to do because I travelled with the commission to Australia to examine the wholesale level of tax, we organized ourselves in the department for a complete review of the valuation provisions as we had them in our circulars and from this we began to try and work out the kind of law and the dimensions of this law which would be necessary to give effect to what we were doing and which generally is accepted as the fair and reasonable way of making all the levels come down to the manufacturers' level. This represented a considerable task and at the conclusion of that we said here we have what will have to be somehow or other authorized under the law. We reached that stage and then we said the next phase of this then is the question of the appeal. We kept bogging down each time that we got into this. I may say, although I could not pronounce myself in the same way as other people, that I and the other members of my staff who went to meetings of associations, chambers of commerce, and groups like that, had sessions for the purpose of bringing out from them their feelings with respect to the attempts we were trying to make in drafting and working out this idea.

Mr. WINCH: I have just one more question. Could I ask the deputy minister whether any order in council has been passed under section 22 of the Financial Administration Act to exempt him and his officials from imposing or changing taxation not authorized by statute, and if your colleague is correct, making refunds which I gather have been made illegally. What is the situation?

Mr. LABARGE: I think if that had been the situation we would be rather depleted in the department so far as employees are concerned. It would not be an attractive place to recruit staff. There was no order in council. The common law is built up on practice, acceptable practice, and as we indicated last year, at the very inception of this act, some member, the Hon. H. H. Stevens as he subsequently became, said now you must make sure that you do not apply the sales tax on the sales price of everybody selling goods; the manufacturer who sells to a wholesaler sells at a different price than what he sells to the consumer. He proposed this amendment. The minister of the day, I believe it was the hon. Mr. Fielding, said, we have this in sections such and such; we have this in the law. And the whole House sat and examined that law and conceded that they believed that he had it. I do not think that this was seriously questioned in the legal sense until 1955.

Mr. WINCH: In view of the fact that two lower courts—one was in British Columbia and I think one was in Ontario—have said you do not have the

authority to issue these regulations, in view of the fact the Supreme Court split on it, in view of the fact that the Auditor General said that you have not got the authority, on what basis is your department continuing, two years after it was drawn to the attention of this committee and officially, therefore, to parliament, to operate by varying a taxation in this particular matter by regulation. Under what authority do you think you are doing it in view of all that background? I think that is a reasonable question, Mr. Chairman.

Mr. LABARGE: Well, it is a reasonable question. Perhaps I would look at it in a little different way and say that the law, as we have been interpreting it over the years, has established the operation of the tax at the manufacturers' level.

Mr. WINCH: Even although two courts have said you do not have that authority?

Mr. LABARGE: Well, let us just say that we found ourselves in the situation of agreeing to that. Let us say at that point we did.

Mr. WINCH: I agree with your intent and procedure, but to me the important thing is operation according to statutory authority. That is the one point I am after.

Mr. LABARGE: Well, we are not disagreeing at all. In fact we have maintained that we would like to see this; it is a question of how you put it in.

Mr. BIGG: If I could deal with that for a moment, it is a difficulty that you have in all legislation. We passed, through parliament, the right to tax people, say, up to 11 per cent on certain commodities. Between that and collecting the tax there is a tremendous difficulty. So, although we have given the authority in blanket form we have tried to give safeguards as well by saying we must not have deputy ministers running around allowing exemption on Cadillacs and not on Ford cars, or something else like that, hatchets instead of fishing equipment—it is sort of a stop plan. But in between they start out, I suppose, and they do things which they think are right until they are challenged in this manner. Now, our problem, I think, is that if there is any way we can help them by clarifying the legislation and giving them full legal authority which cannot be challenged in the courts, let us do it. But I still think it would be a very, very complicated act where we can go into all the details and ramifications of administering something which affects every industry and every commodity sold in Canada.

Mr. WINCH: That is my very point. Two years ago this committee went into this matter and said, do something about it to make it legal, statutory. And now in 1966 we find no action.

The VICE-CHAIRMAN: I do not think we will change the act this afternoon so we will have to put it in our recommendations again this year. I think we have time for at least one or two items before 5.30 p.m. Some of the members have signified they would like to leave at 5.30 p.m.

Mr. BALDWIN: I have one question before we leave. You may or may not have the information now. In terms of total amounts, having in mind the total of the sales tax which is collected, would you be in a position to furnish the committee with some indication as to the amount which is involved of sales tax

which might well have been collected on a basis different from what was intended by the statute, if you took the strict interpretation of the statute.

Mr. LABARGE: By this you would mean if we charged on everybodys' selling price what would the revenue have been?

Mr. BALDWIN: Well, what I am getting at is this. Obviously some of the sales tax you are now collecting on the rule of thumb method which you have felt you had to apply in order to make some sense out of it, is being collected on the basis which Mr. Winch suggested and which the committee has said in the past is not the proper rate. In other words, there has been a breach in the statute. Now, are you able to assess the total amount of all the sales tax that has been collected which has been improperly collected on that rate?

Mr. BIGG: I do not think they admit to any being improperly collected. They say they collect it in the best manner they can with the rather clumsy statute under which they operate.

Mr. LABARGE: We feel that the whole objective and intent certainly has been to get you from the beginning, and that is that there will be a tax paid on the manufacturers' selling price. Now the manufacturer does not always sell out his door to the first level. Well, it is the ingenuity of the Canadian people at work, if you want to call it that, because what it amounts to is imposing an ad valorem tax on goods and asking it to turn out in a specific term. If you pay tax on a television set which amounts to \$25 because you bought it from the whole dealer you are not going to have \$35 when it is sold by the wholesaler; you are not going to have a \$50 tax when the tax at the manufacturer's level was \$25, and it is to maintain it at that level no matter where the tax is collected. Now, this is why I say Canadians seem to go in for a compromise between this on a practical, fair and reasonable basis.

Mr. WINCH: That is not quite the situation. Let us take custom furnishings. You allow 33½ per cent below the price on which it is to be charged.

Mr. LABARGE: To bring it down to the manufacturer's level, because he has it priced way up here. He is selling directly to the highest buyer.

Mr. WINCH: So you allow 33½ per cent.

Mr. LABARGE: Downward. So he comes out at the same price as if he were a manufacturer selling to a wholesaler.

The VICE-CHAIRMAN: Well, to close this off we could put in the record on page 216 of our report under item number 37, amendments to the Customs Act and the Excise Tax Act. "The Committee made the following recommendations: Item (d) determination of sale price for sales tax purposes—That an amendment be made to the Excise Tax Act designed to give statutory sanction to the existing method of valuation followed by the Department of National Revenue in authorizing manufacturers by regulation to compute the sales tax on less than the actual price."

Mr. WINCH: That is exactly what I want, the statutory authority to do what they are doing now.

The VICE-CHAIRMAN: Could we move on to another item? The next item is item 91.

91. *Settlement of sales tax on percentage of total sales.* In previous Reports instances have been cited in which the Department of National Revenue has authorized the computation of sales tax on less than the actual sale price contrary to the provisions of the Excise Tax Act. The Public Accounts Committee in its Eighth Report 1964 (see Appendix 1, item 37) included the following recommendation with respect to this practice:

that an amendment be made to the Excise Tax Act designed to give statutory sanction to the existing scheme of valuation followed by the Department of National Revenue in authorizing manufacturers by regulation to compute the sales tax on less than the actual sale price.

During the year another method of assessing sales tax came to our attention which indicates that proposals designed to give statutory sanction to the collection of sales tax on other than the basis required by present legislation must be carefully examined if a loss of revenue is to be avoided.

In 1962 the Department became aware of an unsatisfactory situation with regard to exemption certificates covering tax-exempt sales of oil filters for internal combustion engines sold to farmers, loggers and fishermen. Following an investigation the Department ascertained that approximately 50% of the oil filters manufactured in Canada for use in internal combustion engines were used under tax-exempt conditions. It therefore ruled, contrary to the provisions of the Act, that henceforth the sales tax of 11% would be applied to only 50% of the total sales of each manufacturer on the understanding that exemption certificates would not be required nor would the Department consider any refund claims with respect to such filters.

Under this arrangement each manufacturer is expected to remit to the Receiver General 11% tax on only 50% of all his sales of filters to unlicensed dealers.

With effect from June 14, 1963, engines used in the logging industry were deleted from the schedule of exemptions. This, of course, reduced the number of oil filters used under tax-exempt conditions but, due to pressure of work, the Department had not yet been able to carry out the necessary investigation to determine a new percentage of sales on which the tax is to be applied.

This matter came to our attention when a routine Excise Tax audit resulted in an additional assessment of \$3,605 which took into consideration changes made in the Excise Tax Act in June 1963. This additional assessment was reduced by \$3,193 because of the departmental ruling issued prior to the changes in the Excise Tax Act and which is still in effect.

Mr. HENDERSON: This case is an example again of the importance of statutory sanction being given to the existing scheme of valuation followed by

the department in authorizing manufacturers by regulation to compute the sales tax on less than the actual sale price. I would suggest to you that it points up why the present legislation should be carefully examined if a loss of revenue is to be avoided. This has to do with the oil filters and the averaging method, on which perhaps Mr. Labarge and Mr. Hind will have something to say.

Mr. LABARGE: This has been adjusted but I think I will ask Mr. Bennett to give to you an explanation of the reason for this.

Mr. G. L. BENNETT (*Assistant Deputy Minister Excise, Customs and Excise Division, National Revenue Department*): Mr. Chairman, this matter has been adjusted by regulation effective the 1st of June of this year by requiring the manufacturers to pay tax on 70 per cent of their sale of oil filters for internal combustion engines without right of refund. The delay in bringing this matter to a conclusion results from many factors. First of all, and perhaps this is no excuse but it is a fact, that there was a tremendous increasing work load following the budget of 1963 which forced us to establish a system of priorities in dealing with any changes. The investigation required to adjust the basis for tax on oil filters was placed in its proper position in this system and as a preliminary to the investigation a discussion with representatives of the industry revealed that there was no general agreement among them and among the industry itself concerning this matter. Because of this disagreement numerous difficulties presented themselves to us, not only during the investigation but also during the discussions with the representatives of industry. When the investigation and these discussions had reached the stage where we could put forward a new basis for tax, we considered it to be only right and proper to make this new basis effective on a future date in order to give these manufacturers time to adjust their prices and to have price-lists printed for distribution to their customers. To establish retroactive assessment based upon this investigation in our opinion would be grossly unfair, and it was for this reason that the assessment referred to was adjusted.

The VICE-CHAIRMAN: Are there any questions on this?

Mr. HENDERSON: I would like to ask Mr. Long if he has anything to add to this?

Mr. LONG: The case mentioned in our report referred to the withdrawal of an exemption which I believe was effective June 14, 1963. The fact that the percentage has now been changed as of yesterday means that there has been, of course, the loss of the difference from June 14, 1963 to June 1, 1966.

There is one other question that I would like to ask and I think the committee might be interested in this. What is the purpose of an exemption for any group for oil filters if a change in the percentage of tax—that is a change in the percentage of exempt sales—results in the necessity for the manufacturers to change their pricelists? These exemptions as we understand them are for certain persons. They might be farmers; they might be the logging industry, or something like that. Now, the manufacturers supposedly are selling to those classes tax exempt; they are selling to everyone else collecting the tax, but to make things easier the department says it is 50-50 or 70-30; you just settle your tax on that basis. Why should this affect the pricelists of the people, the manufacturers or the wholesalers who are selling these filters?

Mr. LABARGE: Well, the 70 per cent means that there is that much of a tax increase in that portion which is so taxable.

Mr. LONG: Is it not supposed to reflect that 70 per cent of his sales are taxable and 30 per cent are not taxable without affecting the sale price? They are all sold at the same price but 70 per cent tax is collected and 30 per cent is not collected.

Mr. LABARGE: Well, he is the person who is liable to us for the tax. Now if I want to, I can pay the tax on any goods that I want to sell you so far as the law is concerned. Whether I do it and go into bankruptcy, that is my business. That is the way the law is.

Mr. LONG: But is the effect of this not that an exemption meant for some particular industry, if other pricelists are being changed, is actually being enjoyed by other than that industry? If the pricelist of a manufacturer, to let us say the Canadian Tire Corporation, is raised because you have raised the percentage from 50 to 70 you and I and everyone else buying oil filters at Canadian Tire Corporation are now going to pay more, meaning that we were benefiting in the past from an exemption that was for farmers or loggers.

Mr. BIGG: The farmer gets 100 per cent exemption.

Mr. LONG: No. Canadian Tire Corporation theoretically sells some of their filters to farmers but they do not give them any better price.

Mr. WINCH: The farmer is paying you 15 per cent, is that not correct?

Mr. LONG: Well, the tax is only being paid on 70 per cent of the total sales. Therefore he is paying 70 per cent of 11 per cent as the rest of us are instead of being exempt from the full tax.

The VICE-CHAIRMAN: This is a tax on the manufacturer and so far as I know Canadian Tire Corporation does not manufacture very much. At least I doubt if they do. They buy from manufacturers under their own label.

Mr. LONG: No, but the reason behind this is that a certain percentage of the manufacturer's sales are tax exempt. It was based at 50%. Roughly half the sales are tax exempt and they pay 11 per cent on just half their sales to simplify administration. The exempt classes were reduced in 1963 so that it is not now 50 per cent; it is only 30 per cent.

Mr. BIGG: Because they were reporting a larger percentage of the oil filters.

Mr. LONG: No.

Mr. BIGG: They made this sort of a rough cutoff and said about half are manufacturers in Canada, therefore we will reduce your sales tax to 5½ per cent.

Mr. LONG: All the manufacturers are in Canada but the exemption was withdrawn from certain classes of users.

Mr. BIGG: Like the logging industry.

Mr. LONG: Yes, like the loggers. It was withdrawn. So the percentage changed to 30 per cent instead of 50 per cent; but the department has taken until yesterday to reflect that in the change in what the manufacturer now has to pay. But, one of the reasons for the delay for the last month was so that they

could change their pricelists. I cannot see how this could affect their pricelists unless it means that someone else is benefiting from exemptions provided for certain specific classes.

The VICE-CHAIRMAN: Probably a more fair way of doing it would be to get the total registration in Canada of vehicles used in farming and fishing and then you could get a percentage of the total vehicles in Canada. Then you would have a better idea of the percentage.

Mr. BIGG: But if you were advertising your prices surely if you changed the exemption from 50 to 30 there must be a change in your catalogue of what it is going to cost the people to buy your filters unless the manufacturer is going to absorb the extra tax.

Mr. LONG: You will have a price and charge sales tax where it applies and you do not charge it where it does not apply. So it should not change your sale price.

Mr. BIGG: I think it is as simple as saying they are putting out catalogues and have to change the sales price part of the catalogue unless they are going to absorb the difference. Somebody has to pay this extra 20 per cent of the 11 per cent.

The VICE-CHAIRMAN: They would have to charge it to more people.

Mr. BIGG: Some of these trade catalogues are this thick.

Mr. LONG: Since 1963 that particular industry has been paying tax because in the budget that year the tax exemption was withdrawn but we have not been getting it from the manufacturers.

Mr. BIGG: But just because they made a sudden change in the regulations they cannot possibly change every detail.

Mr. LONG: The point here is that this tax is being collected on less than the full sale price on the over all. This is one of the difficulties in this kind of an arrangement.

Mr. LABARGE: This is to provide for exemptions within those sales.

The VICE-CHAIRMAN: Well, gentlemen, it is 5.30; we cannot finish this department tonight so we will have to continue at our next meeting, I believe.

Mr. HENDERSON: Will that be next Tuesday, June 7.

The VICE-CHAIRMAN: Next Tuesday, June 7 at 3.30 p.m. in room 308, according to the list here. Does that coincide with your schedule?

Mr. LABARGE: Does anyone know when the Committee on Drugs and Pharmaceuticals is scheduled?

An hon. MEMBER: It is on June 9.

The VICE-CHAIRMAN: Thank you, gentlemen. The meeting is adjourned.

HOUSE OF COMMONS
First Session—Twenty-seventh Parliament
1966

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 13

TUESDAY, JUNE 7, 1966

Public Accounts, Volumes I, II and III (1964 and 1965)
Reports of the Auditor General to the House of Commons (1964 and 1965)

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long, Assistant Auditor General; Mr. R. C. Labarge, Deputy Minister, National Revenue; Messrs. J. G. Howell, A. R. Hind and G. L. Bennett, Assistant Deputy Ministers; and Mr. J. W. Langford of the Department of National Revenue.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre.

and

Mr. Baldwin,	Mr. Gendron,	Mr. Stafford,
Mr. Ballard,	Mr. Leblanc (<i>Laurier</i>),	Mr. Tardif,
Mr. Bigg,	Mr. McLean (<i>Charlotte</i>),	Mr. Thomas (<i>Maison-</i>
Mr. Cameron	Mr. Morison,	<i>neuve-Rosemont</i>),
(<i>High Park</i>),	Mr. Muir (<i>Lisgar</i>),	Mr. Thomas (<i>Middlesex</i>
Mr. Dionne,	Mr. Noble,	<i>West</i>),
Mr. Flemming,	Mr. Racine,	Mr. Tremblay,
Mr. Forbes,	Mr. Schreyer,	Mr. Tucker,
		Mr. Winch—(24).

(Quorum 10)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, June 7, 1966.
(18)

The Standing Committee on Public Accounts met at 4.07 p.m. this day, the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Baldwin, Ballard, Flemming, Hales, Leblanc (*Laurier*), Lefebvre, Noble, Stafford, Thomas (*Maisonneuve-Rosemont*), Thomas (*Middlesex West*), Winch (11).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long, Assistant Auditor General; Messrs. Crowley and Laroche of the Auditor General's staff; Mr. R. C. Labarge, Deputy Minister of National Revenue; Messrs. J. G. Howell, A. R. Hind and G. L. Bennett, Assistant Deputy Ministers; and Messrs. Langford and Last of the Department of National Revenue.

The Chairman read into the record a letter sent by him on behalf of the Committee to the Institute of Chartered Accountants of Ontario (See Evidence).

The Committee concluded the questioning of the representatives of the Auditor General and Department of National Revenue on items in the 1965 Report concerning Customs and Excise. The following paragraphs were covered

Paragraph 92—Refund of sales tax on material used in construction of certain buildings.

Paragraph 93—Crown-owned houses located at Coutts, Alberta, declared surplus to requirements. (This item will be recalled when Crown Assets Disposal Corporation and/or Treasury Board representatives appear before the Committee.)

Paragraph 95—Commissions for issue of provincial hunting and fishing licences and permits.

Paragraph 96—Customs and Excise laboratory.

Paragraph 97—Part-time Customs and Excise Enforcement Officer.

Paragraph 98—Sight entries.

Paragraph 99—Bonded warehouses.

Paragraph 100—Possible loss of excise tax.

Paragraph 169—Accounts receivable. (The Department is to provide additional information to the Committee. *See Appendix 5*)

Appendix 1—(9) Remission of Sales Tax on oleomargarine. (Follow-up report item 9)

The Chairman adjourned the meeting at 5.43 p.m. to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, June 7, 1966.

● (3.18 p.m.)

The CHAIRMAN: Gentlemen, we have a quorum.

You will recall, two or three meetings ago, that Mr. Ballard moved and Mr. Baldwin seconded that this Committee go on record as acknowledging that the Auditor General's office had been sanctioned to take on students in training for their degree work. I was instructed to express the appreciation of the Committee in this regard.

With your permission I would like to put on record the letter that was sent to Mr. Ross, President of the Institute of Chartered Accountants of Ontario:

Dear Mr. Ross:

On Tuesday, May 31st, Mr. A. M. Henderson, the Auditor General, informed the Members of the Standing Committee on Public Accounts regarding the action of the Institute at its Annual Meeting in Windsor on Monday last at which time a by-law was passed to sanction the training of Institute students in the office of the Auditor General of Canada in Ottawa.

This action of the Institute in extending this privilege to the office of the Auditor General of Canada is greatly appreciated by Members of the Committee. Several of them expressed their pleasure at this meeting.

I should like to associate myself with these expressions and say to you and the Council that we regard this as a most constructive and helpful contribution towards strengthening the organization and work of this important officer of Parliament.

We are confident that the arrangements will work very smoothly and at all times conform to the high standards demanded by your Institute in the practice or your profession.

Yours sincerely,

A. D. Hales, Chairman,
Public Accounts Committee.

I thought the members would like to know that your wishes had been carried out in this regard.

The other announcement I would like to make is to request that you please speak into the microphone, because the transcription comes out rather blurred unless you do, and they are having a little trouble in the translation section.

Mr. Henderson would you proceed with Paragraph 92 on page 60 of the 1965 Auditor General' Report?

92. *Refund of sales tax on materials used in construction of certain buildings.* In paragraph 71 of the 1964 Report attention was directed to section 47a of the Excise Tax Act, 1963, c. 12, which reads as follows:

Where materials have been purchased by or on behalf of

- (a) a school, university or other similar educational institution for use exclusively in the construction of a building for that institution, or
- (b) any organization for use exclusively in the construction of a building for that organization that is to be used exclusively or mainly as a public library operated by or on behalf of that organization on a non-commercial basis,

and the tax imposed by Part VI has been paid in respect of those materials, the Minister may, upon application by such institution or organization in such form as the Minister prescribes made to the Minister within two years from the time the materials were purchased, pay to such institution or organization an amount equal to that tax.

In order to simplify the arrangements by which the refund could be granted, an Order in Council was passed which established a formula designed to determine the "approximate" value of taxable material in a building and to "estimate" the amount of the refund that may be claimed. This formula continued to be the basis for refunds throughout the year under review.

Section 47A directs the Minister to pay an amount equal to the tax that has been paid and there does not appear to be any authority in the Excise Tax Act to pay a refund based on an estimated taxable value of materials incorporated into a building.

Mr. A. M. HENDERSON (*Auditor General of Canada*): This paragraph deals with refund of sales tax on materials used in construction of certain buildings. It will be seen here that Section 47(a) of the Excise Tax Act is quite specific in directing the Minister to pay an amount equal to the tax that has been paid.

This situation is also the subject of budget resolution 15 with respect to the Excise Tax Act, outlined on page 3399 of *Hansard* of March 29, 1966.

If approved it will provide proper authority for the Department to follow the procedure which I had criticized in this paragraph in my 1965 Report.

I do not know whether the Members will have any questions on this, Mr. Chairman. We might move to the next item.

Mr. BALDWIN: The budget resolutions are not being debated today so—

The CHAIRMAN: Number 93.

Mr. HENDERSON: This is the case of Crown-owned houses located at Coutts, Alberta, declared surplus to requirements.

Here is another case of buildings costing \$61,000 in 1953 and being sold in 1964-65 for \$12,600 by Crown Assets. Three of the houses and lands were disposed of the note says that an offer of \$2,000 for the fourth property had not been accepted at the time our report was written, but I am informed that it has since been sold for \$4,800. If this is the case then the property worth \$61,000 has now been sold for \$17,400, which means that the Crown has suffered a 70 percent loss, or \$43,600.

Since there has been no reduction in the staff at the Port of Coutts I suggest that the loss of the size indicated here on properties built only twelve years ago should raise the question of why the houses were constructed in the first place.

The CHAIRMAN: Mr. Labarge, have you a member of your Department here, who would speak to this?

Mr. LABARGE: I think Mr. Langford could speak to this one.

Mr. LANGFORD (*Department of National Revenue*): Mr. Chairman, the Auditor General has raised the question of the justification for the construction of these houses in the first instance.

These houses were built in the early fifties, over a period beginning in 1951 and ending in 1954, for a total of eighteen houses plus some other buildings. The reason they were built, of course, is that, while Coutts, Alberta is an important point on the map from the standpoint of customs, or as a border crossing point, it has literally nothing in the way of community life. There were absolutely no amenities there, or facilities for housing the customs officers whom it was necessary to assign to this port in order to provide necessary customs services.

This situation has changed somewhat in the past few years. The highway between the border and Lethbridge has been greatly improved, and a nearby town, namely, Milk River, which is some thirteen miles northwest of Coutts, is such that it can provide the kind of community living that is not available and never has been available at Coutts.

Most of the officers are owners of automobiles now, and they have found it more convenient and to their advantage to take up residence in such nearby places as Milk River, rather than continue living in Coutts and occupying department-owned residences. The simple result of this is that we have found it necessary, as these houses have become abandoned, so to speak, by our personnel, to turn them over to Crown Assets for disposal.

In summary, they were built at a time when they were needed. There was a great volume of business coming through Coutts, particularly with the opening up and the expansion of the oil and gas fields in Alberta, and because of the development of inland highway warehouses which had the result of attracting considerably more truck traffic through Coutts than had been the case in earlier years. There was a general upswing of customs business centred upon Coutts, which made it necessary for us to staff accordingly and made it necessary for us to provide suitable housing for our people in the absence of any housing in the normal way.

Mr. LEBLANC (*Laurier*): I wonder if the Auditor General got that explanation before making his remarks. The explanation seems very clear.

Mr. HENDERSON: I am familiar with that, Mr. Leblanc. The essence of the question was that these houses were built twelve years ago and now, because they elect to live thirteen miles away and presumably collect mileage coming to work, we have to sell the houses and take a loss of \$43,600.

I should like to ask the witness a question: Was it not a fact that two of the houses were bought by your departmental employees? That is to say, when the Crown realized \$12,600 for three houses, two of them were bought by your own employees.

Mr. LANGFORD: I would have to check that, Mr. Chairman, I have no knowledge of that.

Mr. LABARGE: What would that signify?

Mr. HENDERSON: It signifies a bargain and it is less costly, and therefore you balance that up against the inconvenience of living in Coutts. I was just asking the question: was is it not a fact that two of the houses were bought by the employees who had found it inconvenient to live there. One house was bought for \$4,100 and the other for \$4,200.

The CHAIRMAN: Is that a fact, Mr. Langford?

Mr. LANGFORD: It seems to be.

Mr. BALLARD: May I ask, Mr. Chairman, if these two departmental employees who bought were previously living at port Coutts, or were they at Milk River? I would be interested to find that out.

Mr. LANGFORD: They would have been appointed. No, sir, I do not believe that they were living in Coutts at the time. They were appointed from various other offices in the Customs service. I would think they were in the general area, however.

Mr. WINCH: In other words, those who were previously on the staff at Port of Coutts were not satisfied and therefore it was necessary to take this loss, but when you appoint some new people they do not take the same exceptions and they are quite satisfied to buy houses and live in the Port of Coutts; is that it?

Mr. LANGFORD: As I said, I will have to check into this question of the purchase of two houses, I believe it was?

Mr. HENDERSON: I have the name of the employees here and I would be glad to show them to you and perhaps you could identify them as employees of your Department or not.

The CHAIRMAN: Mr. Henderson, would you give the names of these employees?

Mr. HENDERSON: The first name is P. E. Kinakin, and the other is E. E. Thiessen.

Mr. LEBLANC (*Laurier*): Are they at Coutts?

Mr. HENDERSON: That is what I thought the Department might be able to tell us.

Mr. LABARGE: I am sorry. The names do not ring a bell with me, and we have not got the details. We will have to find out.

Mr. WINCH: This is a paradoxical situation, whereby employees move out of government houses and they are declared surplus to Crown Assets, but they are sold to other government employees working at identically the same place at a price of \$4,100. I think you will agree, sir, that is a rather paradoxical situation and requires a greater explanation than we have had so far.

Mr. NOBLE: Mr. Chairman, the question that comes to my mind is: Has this Milk River developed to a point, in the years since these houses were built, that it was that much more attractive for these people to live at Milk River than it

was to stay where they were at Coutts? Has this town Milk River, just come into being in the last ten years, or was it always at the same state of development as it is right now?

Mr. LANGFORD: Our information is that the improvement in the living conditions at Milk River has taken place, for the most part, over the last eight to ten years. There has been generally an uplifting in the community life there, in terms of schools, churches, hospitals provided, doctors available, stores, and so forth and so on.

Mr. FLEMMING: My question, Mr. Chairman, is this: Is it correct that mileage is allowed to these people to commute back and forth from another place after housing had been provided?

Mr. LABARGE: Yes, they are allowed commuting for their cars. There are a lot of factors here which we cannot assess unless we are the individuals themselves.

I do not know anything about these two people, but I can well see how people transferring to these points—they are not on high salaries and they were even lower back in those days. There were not good roads. There is an economic rent placed on these by the government and a man could, under these circumstances, find that, apart from the better conditions of a community called Milk River, he had higher rent to pay than he would at Milk River, but he could now travel by a car which he had been able to buy, and his family would be centred in a place where they could live an ordinary communal life and to which he could travel back.

I went to that place and, frankly, I do not know how many of you have done that. The water was hauled in in tanks. Perhaps I could just tell you this little story which I think is an impressive incident. We were dining at the collector's place. Believe me, it was far from impressive. The Minister was there and myself and one other officer. The dinner, to my surprise, was rather fluid—soup and all these kinds of things, and refreshments before and after—to the point where just before leaving the Deputy said, "Would you show me where the boy's room is". The collector turned to me and said, "I have been waiting for this all night." He said, "It is out there across the field."

This is just an illustration of the kind of difficulties in all weather, with no running water or anything else.

When you get these people moved up, and supposing a fellow moves up after these conditions and then all of a sudden he finds that it is not an economic rent that he has got. His children may be grown up by this time. I do not know what the circumstances are, but here is a house which is obviously, as we say, offered at a bargain; there is no collusion between him and the Department. They did not get rid of the house so that he could get a bargain. It is open to any citizen to bid on. He happens to be one of the people who is a little more interested than the others because his job is there.

I do not see that this is not a completely human story. I do not think there is anything crooked or malicious about it, or that the thing has not been done in the proper way, in the circumstances as they are.

Mr. WINCH: One further question then. Water has to be brought in, and it was all outside plumbing, from what you just told us now would you please,

just for information, explain why there was more than one pump house there, and one pump house has now been abandoned. What was the pump house for?

Mr. LABARGE: That is Pigeon River, I think, Mr. Winch.

Mr. WINCH: Pardon?

Mr. LABARGE: Is that Pigeon River?

Mr. WINCH: Oh, no. This is Coutts. You not only abandoned houses and garages but you abandoned an additional pump house. That means you had more than one pump house. What were the pumps for?

Mr. LABARGE: Well, in 1962 they put in a water system. It is in there now, but it was not in the days I was speaking of.

Mr. WINCH: You have had a water system since 1962. You have more than one pump house? Come, now, there must be two; so that is only four years ago. Therefore, they had outside water; they had their pump. They had that modernization.

Mr. LABARGE: I think they had gone by that time.

Mr. WINCH: It says that one pumphouse was surplus. I imagine there must have been more than one pump house, because they would not leave a water system if there was no pump supplied.

Mr. LANGFORD: The inference to be taken from that is that we had one pump house, and we disposed of that one pump house when a general service was introduced in 1962.

Mr. THOMAS (*Middlesex West*): Well, Mr. Chairman, I lived on the prairies for a number of years and I can understand the problems that might arise in a community like that where there is not a water supply, and possibly no water supply available.

The point I wish to raise is this: Has the staff increased? I will put my question this way: How many houses, or dwellings, were involved in this development? Sixty-one thousand, I would guess that \$61,000 would mean anywhere from six to eight houses, or maybe ten if there is no running water, or maybe more.

Mr. LANGFORD: Eighteen houses here were constructed from 1951 to 1954, plus the pump house and the garages involved—two double garages; perhaps there may be more garages. We disposed of two double garages. But the total number of houses constructed there between 1951 and 1954 was eighteen houses.

Mr. THOMAS (*Middlesex West*): That would be about \$3,000 per house.

Mr. HENDERSON: Oh, no. If I may correct you, Mr. Thomas.

Do you have the cost of the eighteen houses?

These would include the ones for the Department of Immigration. We are talking about only four houses here for \$61,000, or about \$15,000 each in terms of cost.

Mr. THOMAS (*Middlesex West*): Do we understand, then, that all of the houses were not sold.

Mr. HENDERSON: I am commenting here only on the ones at the customs port, that were sold for the Department of National Revenue. They sold four of them. They had some others there but we are just taking the case of these four.

Mr. LEFEBVRE: The \$61,000 represents only the amount for the garages, houses and pump houses that were sold?

Mr. HENDERSON: That is right.

Mr. LEFEBVRE: It does not include any other buildings that are there.

Mr. HENDERSON: That is correct.

Mr. THOMAS (*Middlesex West*): Well, can we have the total cost of the development—of the eighteen houses, plus the pump house and the other ancillaries?

Mr. LANGFORD: I think we can give you that figure from our working papers.

Mr. FLEMMING: Mr. Chairman, while we are waiting, I would like to ask Mr. Labarge, if this was not an unusual thing to do?

Mr. LABARGE: It is unusual now. We do not do it now. The circumstances are different from those of the post-war period, where it was difficult to find any expansion. The change in traffic and the increase in business, when everything is suddenly brought forward—these circumstances are not repeating themselves nearly so much.

We have taken the strain off a lot of these border points by having these inland warehouses created, so that they simply follow through and close up and move on to their destination.

The CHAIRMAN: Have we an answer to your question, Mr. Thomas?

Mr. HENDERSON: I think Mr. Long has the figure, Mr. Chairman.

Mr. LONG: The figures we have cover sixteen houses, and the total is \$314,000. This covers the garages and the pump houses as well. It also includes some money that was paid by the Immigration Department.

Mr. THOMAS (*Middlesex West*): Could I ask why some of the houses were sold? Is there any explanation why the Department should be selling some of these houses and not all of them?

Mr. LANGFORD: This has been a question of the gradual disposal of them. We disposed of five in 1965, and five more are scheduled for disposal in the next few months to a year—in this current year.

Mr. LEFEBVRE: To your employees again?

Mr. LANGFORD: We have no knowledge about whom they may be sold to. This would be a question for C.A.D.C. to decide.

Mr. THOMAS (*Middlesex West*): May I ask, Mr. Chairman, what is the total staff employed at Coutts?

Mr. LANGFORD: I will have to get that information, I am afraid.

Mr. THOMAS (*Middlesex West*): In other words, the question would follow: Is there accommodation there for all of the employees?

Mr. LANGFORD: Oh, no.

The CHAIRMAN: Would you have an approximate number on the staff there? Somebody in the Department must know.

Mr. HOWELL: The office is open twenty-four hours, with three shifts.

● (4.30 p.m.)

Mr. THOMAS (*Middlesex West*): Therefore, this community could not possibly accommodate them all. Is there any substantial difference between the situation at Coutts and the development at Pigeon River?

Mr. HOWELL: The situation, sir, is entirely the same. They were border ports isolated from any community whatsoever.

Coutts was a main route up into Calgary and Edmonton, and after 1950 the traffic there increased a tremendous amount due to the increase in the trucking industry and the opening of the oil wells.

Officers who worked on the border had come from communities at a distance to get down to work. In these days they were not supplied with cars and they did not have cars of their own, so the only alternative the Department had was to build for them there as well as at Pigeon, where the situation was relatively the same.

Mr. THOMAS (*Middlesex West*): Would it be a reasonable assumption that, due to the general increase in standards of living throughout the community in that general area of western Alberta, people who, in 1950, 1952 and 1953, following the war, might have been willing to live in non-modern homes, that they would no longer be willing to live in non-modern homes in that area, and is it possible to supply those homes economically with the conveniences of life such as running water?

Mr. HOWELL: I think the situation, Mr. Chairman, is that, following the war, a great many of our officers were returned veterans. They were not married at the time. When they took up duties down there they probably had just been married a short time.

As families increased they had to educate them, and Coutts is not a place where you can educate your family. Therefore, being realistic about the whole situation, having obtained a better standard of living, and in most cases now having acquired an automobile, they looked around to see where they could live better. They went to Milk River and to Lethbridge—places of easy access. This is where they moved their families, so that they could have the better amenities of life, and where they could give their children better education; and they commuted.

Mr. THOMAS (*Middlesex West*): What are the circumstances under which the Department pays mileage? How far must the employee be located from his job, and under what circumstances can mileage be paid?

I can imagine that in the City of Windsor or Toronto, employees might easily live thirteen or fifteen or twenty-five miles from their job. Would they receive mileage in the City of Toronto, for instance?

Mr. HOWELL: No; nor in Ottawa or in Montreal.

Mr. THOMAS (*Middlesex West*): But if they lived in Milk River, thirteen miles from the job, I understand that they might receive mileage?

Mr. HOWELL: I cannot be certain of that, sir.

The CHAIRMAN: Are there any further questions?

I would suggest that we ask the Crown Assets Disposal Corporation, when they are before us, to give us some further information on the disposal of these houses. I think they will have some answers that you may want to have.

I am just wondering when you employed people there, did you offer them these houses with a certain rent, and give them the option to take that house, or if they preferred to live in Milk River, they could; but if they did, they could look after their own transportation? What sort of a proposition is made to your staff there?

Mr. HOWELL: I think, Mr. Chairman, I do not recall at the time exactly what transpired, but I do recall that at one stage there were surveys by Treasury Board officials into the economic rent of all government housing including the armed forces and our own Department, and I know that following that survey there was a lot of dissatisfaction amongst our officers because their rent was too high for the salaries they were receiving.

This was a complaint time and time again, and it was following this stage that we started to get the people leaving the houses and moving into the nearby communities.

The CHAIRMAN: I wonder if Mr. Henderson or Mr. Long could tell the Committee what the Immigration Department are doing in this locality. Do they own houses, too?

Mr. HENDERSON: I think they own some of these houses. I have some notes here, Mr. Chairman, which might shed some light on this, and give help to the Department. This has to do with the houses that were built by the Department of Customs and Excise at Coutts.

The Deputy Minister stated that "... consideration should be given by Public Works to providing accommodation at Coutts for a minimum of twenty families since the housing situation for most of the officers is quite desperate because Central Mortgage and Housing Corporation and other agencies are not interested in financing houses for individuals at this location". That was said in 1950.

In 1957, because of the expense the Department had gone to build homes at this location, they made it a condition of appointment and promotion that employees would rend accommodation from the Department unless they could give some valid reason why they should not be required to do so.

This condition did not appear on appointment posters after 1961, but it did affect a later promotional competition. In August 1963, fifteen of the twenty-six employees at this location owned or were building their own houses, thus presumably financial institutions were willing to grant loans.

In a letter in January 1964 the Department told the Treasury Board that they had made a recent change in their Department's policy in respect of Crown-owned houses whereby they no longer make the appointments to port positions conditional upon occupancy of Crown-owned residences.

There does not seem to have been any apparent change in the size of Coutts since it had a population of approximately 500 people in 1960, nor has there been any appreciable change in the number of customs and excise employees.

Grain elevator company agents were renting more than three bedroom houses in Coutts for \$45 per month and the R.C.M.P. rents a three bedroom house, including all facilities, for \$70. Customs and excise comparative rentals for their older homes in \$66.50 without utilities and \$110 with all included.

A customs and excise employee is buying his own home at Lethbridge, which is a comparable home, for no more cost per month than charged by customs and excise to rent in this small village.

The sale of houses at this location has taken place because rentals charged have been too high to stop people from fulfilling their basic desire to own their own home, and was not because of any decrease in staff members or general town population resulting in general vacancy of houses.

Based on the prices realized on sale of three properties, the government might consider accepting a lower rate of rent, or some day all the houses may have to be sold through Crown Assets Corporation and rental accommodation may not be available for new appointees.

That, presumably, is the background as to why you are vacating the ownership of houses of which this is the first batch. Mr. Howell said five more had been sold in 1965, and he thought that some more were going to be on the market in 1966; so that they will be out of that investment position soon.

Mr. THOMAS (*Middlesex West*): On the basis of Mr. Henderson's information, Mr. Chairman, has the Department given any consideration to reducing rents to the levels which would be justified by the sale price of these homes?

Mr. LABARGE: We have no authority. That is set by Treasury Board.

Mr. THOMAS (*Middlesex West*): Has Treasury Board, Mr. Labarge, been approached?

Mr. LABARGE: They saw the furore when the rent went up and the people began this exodus. It was too high.

The idea was to have it brought down so that we could keep them there, but the economic rent was a general principle throughout the service, for all Departments.

The CHAIRMAN: Treasury Board did not reduce the rent?

Mr. LABARGE: No.

Mr. LANGFORD: Despite all efforts to persuade Treasury Board to keep them stable or even reduce them because of the isolated conditions in which our people were compelled to work and occupy these homes, we were unsuccessful in getting any reduction, or, indeed, in preventing any increase in the rent.

Mr. THOMAS (*Middlesex West*): Are we to understand, Mr. Chairman, that the people who fix these rentals, that is, Treasury Board, who are responsible for them, charge the same rental whether the home is in Coutts, Alberta or in Lethbridge, Alberta.

Mr. LABARGE: It is the local economic rent in the nearest community. This is what they take.

Mr. BALDWIN: The Treasury Board's laudable desire to achieve a little more revenue from raising the rents was defeated by the losses they sustained when the houses were sold.

Mr. WINCH: It seems rather extraordinary to have a situation where it is absolutely impossible to maintain a decent rent level, yet a person who cannot and will not pay that rent level can buy a house, or somebody else can, for \$4,100—the same house which rents for \$120 a month. To me that sounds stupid, from a financial point of view.

Mr. THOMAS (*Middlesex West*): Are the houses that are being sold, houses that are non-modern? Do you pick up certain houses, for instance, that cannot be serviced with water and sell those, or what houses are chosen for sale?

Mr. LANGFORD: The question of what houses are put up for sale, sir, depends, of course, on those vacated by the officers. We did build a block, if you will, of eighteen houses, and we attempted to keep this as a cohesive little customs community. As one officer abandoned his house and moved elsewhere we closed ranks, so to speak, and asked someone who might be occupying the next house to take over that house in order to keep the group of houses together as customs residences.

The CHAIRMAN: Mr. Langford, may I interject? Did these officers who left, leave because the rent was too high on these houses?

Mr. LANGFORD: Well, sir, there was a mixture of reasons.

The CHAIRMAN: Was not this primarily the reason, that the rent was too high for what they were getting?

Mr. LANGFORD: Well, this was a great contribution to their decision.

The CHAIRMAN: Well, I would think that would be it. Did you, or the Deputy, or anybody in your Department, write to Treasury Board and ask them to adjust these rents so that you could keep your staff there?

Mr. LANGFORD: Yes, sir. We are on record as having requested Treasury Board to keep the rents either at a reasonable fixed level, or to keep the increases down because of the circumstances in which these officers were required to live, having in mind the lack of community life which was almost entirely nil.

The CHAIRMAN: If there are no further questions, we will move on.

We will have Treasury Board before the Committee, and if the Clerk will make note of this we will discuss this with them when they are before us.

No. 94.

Mr. HENDERSON: This has been dealt with, Mr. Chairman. We dealt with it earlier.

The CHAIRMAN: Ninety-five.

95. *Commissions for issue of provincial hunting and fishing licences and permits.* Certain customs and immigration officers have been granted permission by their respective departments to issue provincial hunting and fishing licences and permits when requested to do so by provincial governments and to retain as remuneration any commissions paid to them.

In British Columbia federal officers issued fish and game licences amounting to \$250,000 in 1963. The commission on this amount was \$25,000, some officers receiving over \$400. At one port, where thirty federal officers are employed, licences valued at \$115,000 were issued, resulting in commissions of \$11,500.

Since these officers are members of the federal public service employed on a full-time basis, it would appear that commissions earned should be paid to the Crown.

Mr. HENDERSON: The facts given here are self-explanatory. This is a practice which has existed for many years.

I do not know what questions the members might want to put to the witnesses on this matter.

As I say, these officers are members of the federal public service, employed on a full-time basis, and the question therefore arises whether the commissions earned should not have been returned to the Crown.

Mr. LEFEBVRE: What do the regulations provide for in a case like this, where federal employees are earning commissions by long duty?

The CHAIRMAN: Mr. Langford, are you in charge of this, or Mr. Howell?

Mr. HOWELL: The terms of employment of our officers do not include acceptance of fees, but this was done at the request of the provincial government of British Columbia because our officers, at most of the larger border ports there, are on twenty-four hours duty, and they were very accessible to hunters and fishermen coming up from the United States. They made a special request to us to permit our officers to sell these permits.

About seven or eight years ago we looked into this very closely and we communicated with the B.C. authorities in Victoria on this point. They made a special plea that we permit this, because they felt that our officers were giving great satisfaction in this respect. Because of the fact that they were always there, since they were on twenty-four hour shift, people did not have to go any distance to get them; and they were also sure that the people who were hunting really got their license at the time and were properly accounted for.

We have over the years co-operated with the provincial authorities because they co-operate with us in a great many areas, such as in the licensing of motor vehicles which are brought across the border with American licence plates on them. On things like this we co-operate and work together.

Therefore, for this and other reasons it has been a policy of the Department for years to permit the officers to retain the fees at the request of the B.C. government.

The CHAIRMAN: Mr. Howell, I do not think the question is that it is not a suitable place and handy and so on, but I think the question is: Should commissions be paid to civil servants, or should the commissions go to the Crown? This is the point before the Committee, I think.

Mr. LABARGE: Offhand, Mr. Chairman, I do not know of anything that bars these people from being compensated in this way.

I do know, from a practical point of view, that the province would certainly feel, as would our employees, that there is much more incentive to concern yourself about these things if you are getting something for so doing.

If I may, I will switch to another aspect of this which is my concern as a manager and an employer, and that is that I have other reasons for not being in favour of this.

One of them is that I ask myself, "Where does this thing end?" once you have created a precedent somewhere. There are all kinds of services that can be sought by people with whom we have good relations.

The second thing is, why should one group of employees be able, in the same number of hours, because of particular circumstances like this, to gain a higher income? These two things bring me to the point that I think this thing must be given thorough examination in the next year.

Mr. BALLARD: Mr. Chairman, here is another thing that could be looked at. This is during the hunting season and this would last what—two or three months?

Mr. LABARGE: This is maybe for eight months of the year, sir. You see there are hunting and fishing.

Mr. BALLARD: For eight months of the year, you could almost hire one or two people for \$11,500, which would provide jobs for two more people who would be officially hired by the provincial government for this purpose.

Mr. LABARGE: Yes. These are the alternatives I am going to suggest when and if I am told that this is the only way in which it can be done.

Taking your example, although they are hired for a full day they cannot get around to all the cars that the others do. The officers do it by way of saying, "Why are you visiting Canada?", and the visitor says, "I am going hunting." "Well, you must get yourself a licence." It is that simple.

Mr. McLEAN (*Charlotte*): I come from a community where a lot of moose hunting is done, and last fall one man sold \$23,000 worth of moose hunting licences, and he did not go looking for anybody. They were looking for him, because you cannot hunt without a licence.

Mr. LABARGE: I think this is a good suggestion.

The CHAIRMAN: Well, I think so, because in my community licences are sold by private individuals who—

Mr. WINCH: I think there is a little confusion here. You have to realise that this relates to a port of entry from the United States into Canada. It is only at the port of entry that this applies.

The CHAIRMAN: No, Mr. Winch.

Mr. WINCH: In British Columbia?

The CHAIRMAN: Oh, well they can get a licence—

Mr. WINCH: It is available only at the port of entry, is it not?

Mr. LABARGE: Under these circumstances. . .

Mr. WINCH: That is what I mean. It is only at the port of entry. I can tell you this because I was for twenty years in the B.C. house and I can tell you all about this. The businessmen would just love you to take this out because all the hardware stores, sporting goods stores in the village only five miles away, or ten miles away—the first in line at the port of entry, you can get it; and they raise hell, that they can be sold at the Customs House.

The CHAIRMAN: What is your recommendation, Mr. Winch?

Mr. WINCH: Leave it as it is.

The CHAIRMAN: Thank you for your direct answer, Mr. Winch.

Mr. BALLARD: Mr. Chairman, as much as I think that there might be a little bit of moonlighting here on the part of federal civil servants, I think that a great deal of thought has been given to this aspect of licence-issuing by the provincial government. I think that this arrangement has been arrived at for the benefit of the tourists.

I can tell you from experience of going into a different country, or even a different province, that it is sometimes quite a problem to get a fishing or hunting licence. I would say that this is probably a deal set up by the provincial government for the convenience of tourists.

This, quite frankly, is the most convenient way to handle it, and in spite of the fact that there may be some moonlighting involved in this, I would recommend also that they leave it as it is.

The CHAIRMAN: Are there other views on this?

Mr. THOMAS (*Middlesex West*): I think it is a dangerous procedure. As has been pointed out, where does it end? If revenue officers are to be permitted to do this, then on what grounds can you refuse to permit full-time postal employees taking on second jobs? We know that the result of that sort of leniency is that people end up holding down more than one job, and they make the main job suffer.

I think it is a dangerous precedent. I think it should be looked at very carefully, and if an alternative could be arranged I think it should be arranged. I have no objection—under the special circumstances you can do anything, but—

Mr. WINCH: May I ask, Mr. Chairman, if Mr. Thomas is serious when he mentions the postal employees? I made a study of the postal employees in the City of Vancouver and I had an enquiry sent to every employee employed in the B.C. penitentiary. The answer was that approximately sixty per cent—that is, the actual employee himself and his wife—were having to work on account of their economic situation. They had to have two jobs in order to have a decent standard of living.

The CHAIRMAN: May I answer Mr. Winch? This is not in a federal government office. They did their work in some other place of business.

Mr. WINCH: But you referred to moonlighting, and having a second job is certainly moonlighting.

The CHAIRMAN: Well, I agree with you.

Mr. WINCH: This is not. It is only in the process of their actual job that they can give extra service to people coming in. I think it is a good idea.

Mr. HENDERSON: Mr. Winch, could I ask if you have any objection to the federal government—in this case, Customs and Excise—receiving the money direct from B.C. and then looking after this?

Mr. WINCH: Oh, no. It is the service that I want maintained.

Mr. HENDERSON: Yes; keep the service up but let the province of British Columbia pay the federal government, and, in return, leave it up to the administration of Customs and Excise to square things with their inspectors to the extent they wish to reward good employees for extra service.

Mr. WINCH: I want to make that clear sir. It is a service, and I will just add one word about why that is important. The customs office, shall we say, at a port of entry—the entire tourist service is open twenty-four hours a day. Ten or fifteen miles away you could get it from a hardware store. They are open from nine o'clock in the morning till five or six at night. The tourist is coming in and he is stuck for a balance of time, where as under this system he can pay immediately as he comes in, and head for where he is going.

Mr. HENDERSON: I take it that you do agree that commissions like this should be paid to the Crown and not to the individual civil servant.

Mr. WINCH: I have no objection to that. It is the maintenance of the service by these people that is of importance.

The CHAIRMAN: All right. We have had a good airing on this.

Mr. Noble, do you have another question?

Mr. NOBLE: I would like to ask if extra employees are needed to provide this service?

Mr. LANGFORD: No, sir. The issuance of these permits is done at the time of the examination of the vehicle and fishing gear or the shooting gear carried by the tourist. The officer who examines these goods—and he may have to give customs permits for it, in addition—would issue the permit at the same time.

The CHAIRMAN: Number ninety-six.

Mr. HENDERSON: 96. *Customs and Excise laboratory.* The primary function of the laboratory is to identify and classify by chemical or physical means various materials described in the Customs Tariff, the Excise Act and other Acts of Parliament administered by the Department of National Revenue and to advise departmental officials on the drafting and enforcement of regulations where chemical or related scientific information is involved.

In 1964-65 the laboratory incurred costs of approximately \$120,000 in analyzing some 9,700 samples of which more than 6,000 came from the Customs Appraisers Branch. This number, however, does not include opinions given verbally because of the need for quick decisions.

A number of the cases involved appeals against assessments of duties but in such cases the Department does not follow the usual practice of requiring that an appeal be accompanied by a deposit, to be returned if the appeal is sustained. Other cases for which no charge is made originate in requests from importers or exporters through the Customs Appraisers Branch, a number of which result in direct benefit to the importers or exporters.

Consideration should be given to the institution of appeal fees and to the adoption of a tariff of fees to be charged for professional services rendered to importers and exporters.

On this case the views of the witnesses on the possibility of fees being charged for these services would doubtless be of interest to the Committee. We make the proposition that this seems to be a case where consideration should be given to the institution of appeal fees and to the adoption of a tariff of fees to be charged for these services rendered to importers and exporters.

I would like to know if this commends itself to the Committee.

Mr. LABARGE: I think that we should get into perspective the prime purpose of—the very reason for—the existence of this lab, which is for the Department's

use. Whether the work is done directly at the request of the Department, or as the result of somebody's submitting a case in appeal, the lab costs are still in the interests of the Department primarily since it is the appraiser's job to determine; and no matter what we tell the other person as a result of the lab test, if we tell them it is such-and-such tariff item and falls under such-and-such category of goods, we are doing that as part of our job and responsibility. If he wanted to he would just send in the goods, and let us get the samples ourselves.

The CHAIRMAN: I think the Committee agree with that principle, but I think the question is: why have your own laboratory, and, secondly, this costs the taxpayers money and why is there not a charge made?

I would add one other question: Why could you not have this work done by one other department of government? I am thinking of inspection services, for instance, here in Ottawa.

Mr. LABARGE: I think I will let Mr. Hind or Mr. Langford speak on this.

The CHAIRMAN: Mr. Langford, we have stated those three questions. Keep it straightforward. First, why have your own lab, when there are other labs available in Ottawa.

Mr. LANGFORD: I think the obvious reason for this is the convenience that it provides us in dealing with the samples of goods that are sent in for laboratory analysis with a view to tariff classification.

The CHAIRMAN: Where is your lab?

Mr. LANGFORD: It is in the building adjoining the Connaught Building on Sussex Street, just a stone's throw away.

These technicians and chemists are a little more than merely chemists. They are people who have a pretty fair knowledge of the customs tariff and the ramifications of it. All of their analyses work is done in the full light of the tariff and in view of the needs of the appraisers' branch, particularly in our Department.

I think it would create delays, and it would probably generate any number of questions—any number of working problems—if this laboratory were under someone else's jurisdiction than our own.

Mr. HENDERSON: Mr. Chairman, may I ask Mr. Langford: Do not American exporters use the lab to test potential imports into Canada?

Mr. LANGFORD: Mr. Hind can corroborate this, I think, that we do give this sort of service to potential importers into Canada, because again, as Mr. Labarge has correctly pointed out, this is by way of assisting us in our own work. We have ultimately to classify these goods if they are going to be imported, and it follows that anything we can do to facilitate the determination of the tariff classification we should feel prepared to do. If this involves examination of a specimen or a sample of the goods that are to be imported we feel that this is all in the interests of carrying out the work for which we are being paid.

Mr. HENDERSON: Mr. Chairman, we thought it a useful question to raise because, as you know, the Royal Commission on Government Organization in its "Make or Buy" volume advocated that all these cases might be examined with a view to charging fees for any public service which is a viable proposition.

It interested me because the Department only recently, I believe, or a year or so ago started to charge distillers for the "strip" stamps which you supply; is that not a fact? You used to give them to them for nothing but now you charge for them. So they are collecting revenue from these stamps that go over the top of the bottles and that was a very useful exercise in the interests of increasing revenue, and, by the same token, this seemed to commend itself—

● (5.00 p.m.)

Mr. FLEMMING: That was not necessary. We had a monopoly on that business.

Mr. BALLARD: I would like to follow the line of discussion on the original sampling, I guess you would call it. In the case of an appeal would there have been an initial sample and testing made?

Mr. LANGFORD: There could have been, but not necessarily. The initial sample might follow together with the appeal at the time the appeal is made.

Mr. BALLARD: How arbitrary is that?

Mr. LANGFORD: A classification could have been made without a sample and then later the sample is submitted in connection with the appeal.

Mr. BALLARD: Would there be any merit in charging a fee for the use of the lab in cases of appeal only?

Mr. LANGFORD: We must remember that the appeal process is there for importers by matter of right under the law, and there is no provision in the law for the assessment of a charge for the examination of any goods, or the analysis of any goods that may arise out of the determination of the classification of these goods.

Mr. BALLARD: Could you also give me an example of a case where the rate of import duties would change as a result of the composition that you would pick up in your lab?

Mr. LANGFORD: I would ask Mr. Hind to reply to that.

Mr. HIND: We have a great many items in our tariff, particularly chemical items, where the rate of duty will be dependent upon the chemical composition of the goods involved. It therefore becomes necessary for us to utilize the services of the laboratory to enable us to determine which particular item is the proper one in that instance.

Mr. BALLARD: In the case of patent medicines, and that sort of thing?

Mr. HIND: Not only that sir, but we have to determine, for example, whether a given commodity is a single chemical substance or is a composition made up of more than one substance.

We need the services of the lab to determine this for us. If it is a single chemical substance it could take one rate of duty; if it is a composite of several substances then it would take a different rate of duty.

Mr. HENDERSON: Mr. Chairman, if I might just tell the members of the Committee, I have here a circular dated April 28, 1966, from the Treasury Board to all departments. They touch on this very problem, and I might read their directive to all of the deputy heads. It is under the heading of "Responsibility for Non-Tax Revenue", and I quote:

It should be departmental policy, wherever economically and administratively feasible, to charge for all goods supplied or services rendered to the public, including those now supplied free, unless there are provisions for specific exemption.

I thought the Members would like to know of that recent promulgation.

The CHAIRMAN: I am afraid I am not convinced in my own mind that you need your own lab. I think—and I am expressing my own opinion and not that of the Committee—that there must be other labs available in Ottawa which could give you the same information that you require, without this duplication and overlapping of another lab. This is my own opinion, I may be wrong.

Mr. BALLARD: I would like to put forward just the opposite opinion. I think that the lab is not being used for the public good; it is being used for the Department; and I think, therefore, that there should be no charge.

The CHAIRMAN: There is no reason why the taxpayer's dollar should be used to set up another lab when there is a lab already in existence, which can perform the duties that this one is supposed to perform. That is my view.

Mr. BALLARD: I would like to record the opposite view.

The CHAIRMAN: I think this matter of charging for professional services should be given consideration and the Committee can decide later on.

Mr. LABARGE: I would just like to record that there was a time when we did not have a lab and there has been a time when the lab was over at National Research and we brought the lab back because the others were not practical in terms of service to the public, nor to ourselves.

I think there is a management decision there, on the value of sending these things out to where we have people into whose hands we can put the thing and say, "we want to know whether it is this, that or that, because these are the three categories they can come into." This immediately eliminates a thousand and one analyses before the spectroscope and every other sort of thing. You come to the point, you get the job done, you send out a letter and you give service. The importation comes in, and the business is done like business.

The CHAIRMAN: How long have you had this lab, Mr. Labarge, on your own premises?

Mr. LABARGE: We have had it certainly over twenty years, as far as I am concerned, or twenty-five years. There was a period of about five years when I believe it was at National Research, and there was a period when we did not have it. What was that period?

Mr. BENNETT: Mr. Labarge, as I recall—and I am saying this, Mr. Chairman, purely from memory—I think there were three to five years when this lab was under another authority, and it was at the request of the other authority that we took it back.

There was a good management reason, too, Mr. Chairman, for this. This lab does a special type of chemical analysis in accordance with the customs tariff. It is not a straight chemical analysis lab as you might find in a general laboratory, or meet in some of the other general laboratories in Ottawa.

They found that this was not a popular pocket of work, in the professional sense, within the greater laboratory context. It is a very special type of lab.

I think I can record that in the American scene it is also a very special lab, and they have always kept their customs chemical labs in the sense in which they look after the tariff classification.

They do not do a complete analysis of everything. They analyze for the purpose of the tariff. It is a special job, sir.

The CHAIRMAN: Mr. Thomas, did you have a question?

Mr. THOMAS (*Middlesex West*): I have a question for Mr. Henderson, Mr. Chairman. Did he intend to raise in this report the economic usefulness of the lab, or was it just a question of whether charges should, or should not, be made?

Mr. HENDERSON: No; I am not raising the economic usefulness of the lab. It is a lab which, within my knowledge, is much appreciated by exporters to Canada. The service is good and is very helpful to them.

We took a look at their costs and as I mentioned, under the heading of the Glassco Commission's recommendation, it is a worthy question, even as the Treasury Board itself has raised in this circular just last month.

I think the exchange of views here before the Committee and what the Departmental witnesses have had to say are very useful.

I suppose it is one of those things that the Committee will want to weigh up and decide whether there is a basis for recommending that something be done about this or not.

I take it that the Department has pretty well made up its mind that there is no basis on which a fee could be charged. I take it that is your position?

Mr. LABARGE: We do not think it is fair, when we are the principal users, and where there is a secondary user who turns out to be working in our interests by asking for a ruling.

Mr. FLEMMING: Mr. Chairman, I was just going to ask Mr. Labarge a question which he has just partially answered, and it is this: I assume you mean that you are user, that the government of Canada has this for its own convenience, very largely, and not only as the agents for importers but also for their own definite convenience; is that right?

Mr. LABARGE: Primarily, sir.

Mr. FLEMMING: And you feel that it would be difficult to justify a charge.

I think, Mr. Chairman, that Mr. Labarge's explanation is very good. I can see people importing something that is very important to them and where it is important to have genuinely quick service. They need something of this nature where they can give it special attention. I know this Department does give things special attention in times of need.

It seems to me that Mr. Labarge's explanation in connection with this, of the desire to co-operate with the general business of the country who have to import something, has a good deal of merit.

The CHAIRMAN: All right. Mr. Long have you anything you want to say on this matter?

Mr. LONG: Mr. Chairman, it seems to me that the discussion so far has more or less assumed that whenever there is a test in the lab there is an importation.

It seems to me that there could be a potential exporter in the United States who just wants to find out what it would cost him to lay something down in Canada. I do not know why he should not be prepared to pay to find that out, rather than get a free service from Canadian customs. It could result, I would think, in no importation whatever.

Mr. FLEMMING: Mr. Chairman, I thought that it was done only when there was a genuine importation.

Mr. LABARGE: Certainly, we do this to find out what the rate of duty is, and sometimes it becomes discouraging for the importer, and, therefore, discouraging for the exporter.

We are talking about the number of ones that come in from the United States. I do not know but it seems to me that the amount of those would not be worth the cost of writing and distributing a regulation on fees.

Mr. LONG: I have here an example of a letter coming in to the Department. "We would appreciate your replying by collect wire as to the proper tariff classification as importation of these oil trading chemicals is pending the ruling of same."

Mr. FLEMMING: What is the co-operation of business?

The CHAIRMAN: I suppose there is the odd case where it could be conceivable that an exporter had some free chemical analysis given to him, but it might be in the minority.

Mr. NOBLE: Mr. Chairman, could I ask one question. Is there not business coming in to keep these facilities occupied, or is it just a part-time business, or what does it amount to anyway?

Mr. LABARGE: This is a full-time lab, sir, and the staff is according to the business.

The CHAIRMAN: Roughly ten thousand samples, it says here. Are there any further questions? Number ninety-seven.

97. *Part-time Customs and Excise Enforcement Officer.* A Customs and Excise officer is usually a full-time employee of the Customs and Excise Division of the Department of National Revenue and his duties include the enforcement of the provisions of the various Acts administered by the Division.

At one small port on the border the sole representative of the Department is a Customs and Excise Enforcement officer who is employed on a part-time basis. This officer has extensive business interests in the area mostly catering to the travelling public. A departmental investigation based on complaints resulted in this officer being severely reprimanded by the Department for failure to properly enforce the provisions of the Customs Act. There has been a notable improvement in the officer's work, the files indicating an increase in the revenue collections at this small port and in the issue of tourist exemptions, temporary admissions and automobile and pleasure craft permits. Increases have also taken place in the number of general receipts issued covering abandonment of alcoholic beverages and cigarettes.

In our view there is a conflict of interest in this situation and as the importance of a border crossing point is not necessarily measured by the volume of traffic passing through it, it would be preferable were the interests of the Department looked after by a full-time customs officer who has no business interests of the Department looked after by a full-time customs officer who has no business interests in the area being served.

Mr. HENDERSON: Before speaking on this item, Mr. Chairman, may I ask Mr. Labarge if the man referred to in this paragraph is still in charge of this sub-customs office?

Mr. LABARGE: The answer is yes.

Mr. HENDERSON: I should tell the Committee that this sub-customs office, located on the Canada-United States border, for the past thirty years has been in full charge of a customs and excise enforcement officer whose salary at the present time is \$2,832 per annum because his services are required only on a part-time basis. This officer succeeded his father who was superannuated about thirty years ago.

The officer with his family operate several businesses catering to the tourist trade. They own property on both sides of the border, including the Canadian Immigration Building. In the absence of the officer, members of his family act as Customs Officers.

Early in 1964, the R.C.M.P. carried out a search of premises occupied by members of his family, and the report includes the following information:

An outboard motorboat belonging to the brother of the officer was placed under customs detention as it had not been formally entered into Canada. An aluminum extension ladder was seized. The officer first claimed that this ladder had been bought in a Canadian hardware store but he later admitted, when a covering invoice was found, that it originated in the United States and that the ladder had been brought into Canada without the payment of duty and taxes.

Bait which is subject to duty at seventeen and a half percent had for at least for thirty years been transported across the border without formal customs entry. Large amounts of correspondence were being received by the officer's family at a nearby United States post office, some of which was from mail order houses in different parts of the United States. This created the suspicion that goods ordered from these companies were being illegally entered but no actual proof of this was found. Finally, numerous receipts were found covering purchases by members of the family in the United States, and in this connection the reporting officer stated, and I quote: "I am quite certain that the records we now hold are no indication of the actual amount of goods brought into Canada by this family without being declared."

The R.C.M.P. recommended that the officer and his brother be charged under the Customs Act. In June 1964, the officer was severely reprimanded by the Department for laxity in the application of the Customs and Excise Regulations, and a departmental report at that time stated and I quote: "The situation as it exists is not entirely satisfactory from the standpoint of customs and excise enforcement."

In July 1965, we asked if the Department planned to take any further remedial action. The Department conducted a further investigation, and on October 22, 1965 they advised us as follows: "I am pleased to advise you that the results of a recent investigation by our inspection branch indicated Mr. X has demonstrated a definite improvement in the discharge of his duties, and we shall continue to keep these operations under close scrutiny.

Accordingly, I do not propose taking any further action at this time."

Mr. Chairman, I have given these circumstances in some detail because the situations we always recommend—and I believe any Auditor would recommend trust, improperly uses his employers' funds for his own purpose. In such situations we always recommend—and I believe in Auditor would recommend—that if the person is not to be discharged he should at least be transferred to work where he has no opportunity for further manipulation. In cases where this advice has not been followed, it has been our experience that a recurrence of the manipulations has invariably occurred.

The CHAIRMAN: Mr. Labarge, I think the Committee would like to know why this man was not discharged, in view of the evidence presented.

Mr. LEFEBVRE: Where is this place?

The CHAIRMAN: Yes; and the location.

Mr. LABARGE: It is Wolfe Island in the St. Lawrence.

I myself have asked this question and have obtained, as of very recent times, an expose of some real outstanding difficulties, the solution of which might again, at a future rate, re-appear in the Auditor General's report with the question: "Why did you buy this property, establish it there, and now sell it at such a reduced price?"

This is a hereditary position, as far as I can find out, based on the fact that the land where the ferry calls is completely owned by one family. There is no possibility of occupying that land, putting a building on it, or even a wharf, as far as I can get from our officers. To put a customs officer there in residence, he will have to come from somewhere else.

If you move up to the other end, some distance off, the man continues to operate his ferry there unless you build a wharf at public expense and insist that the ferry come up in that direction.

I have not yet explored the possibilities of expropriation of some of his land for this purpose—I do not know—but it is the extreme to which one would have to go.

The other possibility is to put a fence around his 300 or 600 acres—I have forgotten what—with only one "sortie" out of it, and put a customs officer there. It means that one has to get a residence, I am sure, for a person off the island, and go into the possibility of this creation of a wharf somewhere else, or expropriation of the land, etc. This is something to which we are giving our attention now.

Mr. FLEMMING: Is there much traffic?

Mr. LABARGE: There is not much traffic.

The CHAIRMAN: This is a case where an individual has the Crown by the hair where it is short! I think Mr. Flemming's question hit the nail on the head. Why not close it up altogether? Is it necessary to have this port?

Mr. LABARGE: I do not think you can close it. We do not open ports actually. We go to where the traffic really is. You can close it off on the highway, but here you have a communication between an island of Canadians and one operator of a ferry. If you close that off and suggest they swim over, it is not going to be popular.

The CHAIRMAN: May I ask, Mr. Labarge, on what authority the ferry operates? Does he require a licence from the province?

Mr. LABARGE: Public Works.

The CHAIRMAN: From the federal Department of Public Works.

Could an arrangement not be reached with them?

Mr. LABARGE: To cancel that?

The CHAIRMAN: In the national interest?

Mr. LABARGE: This might be another alternative. But who would set up another ferry? It might mean that the Canadian government would have to build a bridge, or run a ferry service itself.

Mr. THOMAS (*Middlesex West*): I know we have a good many thousand miles of boundary line between Canada and the United States, with at least a thousand miles of it across the prairies where one can cross almost anywhere. How is it possible to control customs which is your only concern? How do you control customs across that thousand miles of prairie boundary?

Mr. LABARGE: Back of the border there is a service operated by the R.C.M.P., and any person who has cut across, or taken a shortcut, is fined; and if he has goods he is subject to terrific penalties.

Mr. THOMAS (*Middlesex West*): Could not a customs house be set up or down the river bank, a short distance from this island and the same law invoked with this particular operator, that he has to go through the customs port of entry, or something like that?

Mr. LABARGE: The difference is that you have an island out in the St. Lawrence and there is a stretch on one side of the island from that Canadian island to the American side. You have this big no man's land in which a lot of Canadians are living, not just the people who come through.

What you are suggesting, in fact, is that every Canadian moving to another point in Canada be examined.

Mr. THOMAS (*Middlesex West*): What would be the dollar value at this port?

Mr. LABARGE: Mr. Langford, do you have any figures?

Mr. LANGFORD: The dollar value is very low. We have a record here of what we call "small collections entries" for 1961-62 up to 1963-64, and they range between \$200 and \$300.

This should not be taken as an indication that there is no business at this point because there is important customs business in that we have a constant flow

of United States tourists and users of pleasure craft and so on coming in to this point. If we were to decide to close up the office it would mean a great inconvenience to a number of these people.

Mr. LEFEBVRE: How do the Americans handle it on their side at this point?

Mr. LANGFORD: My understanding is that this point is manned by a full-time officer at Cape Vincent; but I am not absolutely sure of this.

Mr. LEFEBVRE: For the same amount of business?

Mr. LANGFORD: Well, it would be, roughly, because it is dependent largely on the ferry trips themselves, you see.

Mr. LEFEBVRE: Perhaps that is our solution.

The CHAIRMAN: No doubt the Department are keeping an eagle eye on this port.

Mr. LANGFORD: Yes, sir. We are watching it very closely.

The CHAIRMAN: Now, gentlemen, we want to finish with National Revenue. We have only five points and we will go through them very, very quickly. I am sure you will be out of here in ten minutes—maybe fifteen at the most.

98. *Sight entries.* In certain cases when, due to lack of information or documentation, it is not possible to prepare final customs entries covering imported goods at the time of their release from Customs, the collector may accept what is known as a "sight entry" accompanied by a deposit of a sum of money sufficient, in the judgment of the customs officer, to pay the duties. The importer is subsequently required to complete a "perfecting entry" within a time limit set by the collector. This procedure is provided for by sections 24 and 25 of the Customs Act, R.S., c. 58:

24. (1) If the importer of any goods, or the person authorized to make the declaration required with regard to such goods, makes and subscribes a declaration before the collector or other proper officer, that he cannot, for want of full information, make perfect entry thereof, and takes the oath in such cases provided, then the collector or officer may cause such goods to be landed on a bill of sight for the packages and parcels thereof, by the best description that can be given, and to be seen and examined by such person and at his expense, in the presence of the collector or other proper officer, or of such other officer as is appointed by the said collector or other proper officer, and to be delivered to such person, on his depositing in the hands of the collector or officer a sum of money sufficient in the judgment of the collector or officer to pay the duties thereon.

(2) If the importer does not complete a perfect entry within the time appointed by the collector, the money so deposited shall be taken and held as duty accruing on such goods, and shall be dealt with and accounted for accordingly.

(3) In all cases where such goods are purchased or consigned a sufficient invoice therefor as provided in section 26, shall be produced within the said time appointed by the collector, and in default thereof the importer is liable to a penalty equal to the amount so deposited with the collector recoverable in any court of competent jurisdiction.

25. Such sight entry may be made as aforesaid and the goods may be delivered, if such importer or person as aforesaid makes oath or affirms that the invoice has not been and cannot be produced, and pays to the collector or proper officer aforesaid a sum of money sufficient in the judgment of such collector or officer to pay the duties on such goods; and such sum shall then be held as duties.

The Act requires that when a perfect entry is not completed within the time set by the collector, the deposit shall be accounted for as duty accruing on the goods. In our opinion this precludes any amendment of the time set by the collector after the time has expired.

In practice, extensions beyond the period approved by the collector are often granted even without a request from the importer and refunds of deposits or parts of deposits are made by the collector after expiry of the time limit. Penalties are rarely assessed against importers when documents are not produced in order to perfect the entry.

We are of the opinion that refunds after expiry of the time limit are illegal and failure to assess penalty when an entry is not perfected may result in loss of revenue as it is generally accepted that in such cases the deposit based on the original appraiser's estimate of the duties was insufficient to cover the duties.

Mr. HENDERSON: In our opinion, refunds of duty after expiry of the time limit are illegal, and failure to assess penalties when an entry is not perfected can result in loss of revenue.

Perhaps the witnesses would care to speak to that.

The CHAIRMAN: Mr. Hind, very briefly.

Mr. HIND: Sight entries are used where an importer does not have proper documentation available to effect the perfect entry of goods at customs.

In such circumstances, the procedure is established whereby the importer is permitted to take delivery of the goods by depositing a sum of money sufficient to pay the duties thereon. In the absence of customs invoices, the importer subscribes to a declaration on the sight entry to the effect that he cannot, for want of full information, make a perfect entry. In general, information contained in commercial invoices, purchase orders or similar documents is utilized in preparing the sight entry. A physical examination of the goods is also made by a customs officer.

Before delivery of the goods may be made, the customs appraiser or officer involved is required to establish the amount of the deposit. The sum must be sufficient, in the officer's judgment, to protect the revenue. At the same time a date by which the entry must be perfected is appointed. In this regard, collectors may authorize periods up to six months. Upon submission of proper customs invoices within the appointed time, a perfect entry is presented. Any change in the amount of duty is accounted for in the perfect entry, with adjustment made as necessary and the case is closed.

Where an entry is not perfected within the time appointed, collectors are required to report the facts to headquarters. A complete review of the case is then made by a dominion customs appraiser to ensure that when determining the amount of the sight entry the port officer used the proper tariff, the correct

rate of duty, and an acceptable value. If the deposit is considered sufficient and no further action is deemed necessary, the collector is authorized to permit the sight entry to stand.

The Auditor General's report touches upon the matter of extensions of time for perfecting entries beyond the period by the collector. As indicated above, collectors are required to report the fact to the Department when an entry is not perfected.

Extensions have been granted where the circumstances have warranted such action. In some instances, foreign exporters, due to lack of experience in shipping to Canada, or because of language difficulties, do not supply proper invoices. In other cases, exporters are indifferent, or are negligent. This makes it difficult for the importer to obtain proper documents. Each case is dealt with on its own merits, bearing in mind the many contingencies which may arise. Where the delay is beyond the control of the importer, extensions in the time period for perfecting entries are regarded as appropriate.

In paragraph 2 of the Auditor General's report it is contended that there should be no extension allowed for after the time period set by the collector has expired. In actual fact, there have been few such instances. However, with regard to the principle involved, the Department of Justice has been consulted and has expressed the opinion that the Deputy Minister of National Revenue can indeed authorize extensions either before the expiration of the time limit, or after its expiration.

The report states in Paragraph 3 that "In practice, extensions beyond the period approved by the collector are often granted even without a request from the importer, and refunds of deposits, or parts of deposits, are made by the collector after expiry of the time limit." The main point involved in this statement has already been explained. The new feature relates to the granting of an extension "without a request from the importer". As already indicated, the Department of Justice considers that the Deputy Minister may authorize extensions. Whether these extensions are made at the request of the importer or not, does not seem to be material. However, it is understood that cases of this kind do not arise very often.

An example which might be cited involves the non-commercial importer making casual purchases, who is not familiar with customs procedure. In the second sentence in paragraph 3 the report states: "Penalties are rarely assessed against the importer when documents are not produced in order to perfect the entry."

The CHAIRMAN: Mr. Hind, have you much more there?

Mr. HIND: No, I have not.

The CHAIRMAN: All right.

Mr. HIND: First of all, it should be stated that the Department of Justice are of the view that the penalty feature in section 24(3) of the Customs Act is not mandatory. While it has not been possible to ascertain from our files the formal reason for non-assessment of extra penalty, it should be remembered that the deposit that it collected on the sight entry is in the nature of a penalty.

Then, too, it may have been reasoned that in many instances the amount involved would not warrant legal action.

The first part of Paragraph 4 states: "We are of the opinion that refunds after expiry of the time limit are illegal." It is assumed that the author of the Report had in mind cases where extensions had been granted. If this is so, the Department has difficulty in accepting this position for, as previously mentioned, in the opinion of Justice the Deputy Minister has the right to authorize extensions, both before and after the expiry of the original time limit.

The CHAIRMAN: Mr. Long, do you want to bring that into perspective in a few words?

Mr. LONG: Mr. Chairman, as far as I am aware we did not see in the Department's files anything from Justice on this point. We were going by the Act which we quote—Section 24(2) of which I would draw the Members attention: "If the importer does not complete a perfect entry within the time appointed by the collector, the money so deposited shall be taken and held as duty accruing on such goods, and shall be dealt with and accounted for accordingly." Our interpretation of that is that the collector sets the time, and as long as it is re-set within the time originally set, the time given to complete the entry has not expired.

Once it has expired it seems to us that the Act is quite clear. You take the deposit and that is it.

However, without seeing the opinion of Justice I cannot say any more about it.

Mr. LEFEBVRE: Did you not receive any opinion from your advisors in that respect?

Mr. LONG: We did not in this case.

The CHAIRMAN: Number ninety-nine, I think, we can take as having been dealt with, because the Department has informed the Auditor General that the regulations and procedures respecting customs bonded warehouses are under review and steps are being taken.

99. *Bonded warehouses.* The trend in the Customs and Excise Division of the Department of National Revenue is to effect speedier release of goods to importers by deferring payment of duties at time of entry. Similarly, the requirement that a customs officer be present whenever goods are being released from a bonded warehouse has been dispensed with by eliminating the dual lock procedure, as recommended by the Royal Commission on Government Organization. These concessions benefit the importers but also involve a calculated risk in the collection of the revenue.

When the customs surcharge was imposed in 1962, a number of importers made use of bonded warehouses in order to delay payment of customs duty in the hope that by the time the goods were actually required, the surcharge might have been removed. This increased use of such facilities inevitably involved the Department in additional supervision costs. It is not uncommon for goods to remain, with the approval of the Governor in Council, in customs bonded warehouses for periods in excess of five years.

In these days of rapid communication and transportation the need for bonded warehouses may not be as great as it once was. We asked the Department whether any consideration had been given to amending the Customs Act in order to eliminate customs bonded warehouses for storage of imported goods for lengthy periods of time without payment of duty and if it was in a position to establish whether the licence and special service fees collected from proprietors of warehouses were sufficient to meet the departmental costs of supervising and controlling these warehouses.

The Department was of the opinion that elimination of bonded warehouses could restrict current trade practices and large volume buying by importers. It also pointed out that the bonding of warehouse establishments allows an individual to operate a bonded warehouse in conjunction with a retail sales outlet permitting duty free merchandise to be sold for export.

The Department informed us that the regulations and procedures respecting customs bonded warehouses are under review and that it proposed to conduct an administrative cost analysis of warehousing operations in order to establish a new scale of licensing fees.

Mr. HENDERSON: I wonder if we might ask the Department, Mr. Chairman, if they have done anything further about this yet? Is it still under review, or has the review been completed, or if not, when will it be completed?

Mr. HOWELL: You are referring now to what you mention in your Report? It is now in process; it is not really completed yet.

Mr. HENDERSON: We will be following that up, Mr. Chairman, and we will deal with it next year.

Mr. HOWELL: You are dealing, I assume, Mr. Henderson, with the charges in connection with warehouses and not with the need for warehouses?

Mr. HENDERSON: No. You said: "The regulations and procedures respecting customs bonded warehouses are under review and it is proposed to conduct an administrative cost analysis of warehousing operations in order to review the licensing fees".

Mr. HOWELL: That is right. We are looking into this. But we are not looking into the possibility of eliminating warehouses. That was my point, as you suggested.

Mr. HENDERSON: You are doing what is stated in the last paragraph?

Mr. HOWELL: That is right.

The CHAIRMAN: Number one hundred.

100. Possible loss of excise tax. The excise tax on automobiles was repealed on June 21, 1961 and tax paid on automobiles in dealers' stocks on that day was refunded. In the fall of 1963 the accounting transactions of one dealer who had received a refund of tax amounting to \$16,700 figured rather prominently in a

court case in which it was disclosed that he had been in the habit of overstating car inventories in order to deceive the car manufacturer who financed the inventories.

Payment of the refund claim by the Department was based solely on figures supplied by the manufacturer and certified by the car dealer in question.

Although the Department took no action at the time these disclosures became public knowledge, it did review the file at our request during the year and came to the conclusion that there is a possibility that fifteen vehicles on which excise tax of \$2,375 had been refunded were not actually in the inventory on June 21, 1961, having been disposed of prior to that date. The Department explained that it would now be extremely difficult to establish definitely what vehicles were actually on hand on June 21, 1961 because the departmental officer who approved the claim is now deceased, the claimant's franchise agreement with the automobile manufacturer has been cancelled, the records of the claimant, now in bankruptcy, are not readily available and, furthermore, are not considered accurate. No attempt has been made to effect recovery.

Mr. HENDERSON: This case was the Brockville automobile dealer's case which received widespread publicity some years ago. It may interest the Members to see how the ramifications of this spread into the Department of National Revenue and wound up in my Report.

Mr. LEFEBVRE: In view of what is stated in the last paragraph of number 100 I cannot see what we can do by discussing this any further.

Mr. HENDERSON: Oh, no; it is closed, but it is a loss which I felt it was my duty to report, Mr. Lefebvre. That is the reason.

The CHAIRMAN: I would think, so that this would not happen again, that the Department of National Revenue should, when they knew there was a court case on this matter, have acted to get in on the situation sooner than they did. I think that is the moral in this, Mr. Labarge?

Mr. LABARGE: There is nothing better than being sued when you have a problem like this.

The CHAIRMAN: All right. We have one more now.

Mr. HENDERSON: We go now to page 115, paragraph 169, and here are set down the accounts receivable of the Department of National Revenue.

169. *Accounts receivable—Department of National Revenue.* It will be noted from the table in paragraph 168 that the accounts due to the Department of National Revenue at the close of the year accounted for \$235 million of the overall total of \$265 million owing to the Crown.

With the co-operation of the officials of the Customs and Excise Division and the Taxation Division of the Department of National Revenue, analyses have been prepared showing the nature and amounts of the unpaid accounts.

CUSTOMS AND EXCISE DIVISION—The following is a summary of the accounts receivable of this Division at March 31, 1965 compared with the preceding year:

	Year ended March 31	
	1965	1964
Collectable—		
Excise tax	\$11,381,000	\$ 9,266,000
Customs seizures	531,000	197,000
Duties and taxes on importations	1,227,000	134,000
Investigations	197,000	22,000
Salary overpayments	2,000	1,000
	<u>13,338,000</u>	<u>9,620,000</u>
Uncollectable—		
Excise tax	1,022,000	591,000
Customs seizures	47,000	29,000
Duties and taxes on importations	166,000	165,000
Investigations	3,000	
Salary overpayments		2,000
Sundry	4,000	4,000
	<u>1,242,000</u>	<u>791,000</u>
	<u>\$14,580,000</u>	<u>\$10,411,000</u>

In our 1964 Report we stated that the figures for that year did not include (a) certain sales tax assessments, (b) customs amending entries unpaid for less than six months, and (c) inactive accounts of the Investigations Branch. At March 31, 1965 these amounts have been included and account in large measure for the increase of \$4.2 million shown in the above statement.

The Customs and Excise Division is preparing to extend the system of accounts receivable control accounts to include all amounts receivable by the Department. As yet it is not possible to report upon the age of the accounts as the records are maintained at the district level and the information has not been provided to head office. We understand that this information will be available at head office next year.

During the year 158 items amounting to \$2,997 were written off with Executive approval under authority of section 23 of the Financial Administration Act.

As members know, the Department of National Revenue is divided into the two branches, income tax, and customs and excise division, from which the witnesses come today. We can, therefore, only deal with the customs and excise division accounts receivable here.

This is the second year, I believe, in which these have been made available through the medium of my report. I am hoping that the Department themselves in due course will be the ones who will show how much is remaining unpaid from their various charges, I also hope the income tax division will do likewise.

During the year the division was able to include the three classes of accounts listed here and which were omitted from last year's figures. It is also

planning to extend its control to include all accounts receivable by the Department, which we are very pleased to know.

However, we were not able to show the age of the accounts. It is quite important, in looking at unpaid accounts to know how old they are. Here we were unable to show the age because the information was available only in the field offices and not in the head office. Time did not permit, before we went to press, to obtain the information from the field offices, but I understand that that is going to be remedied this year. Am I correct in that?

Mr. LABARGE: This is our objective.

Mr. HENDERSON: You see here set out the accounts which the Department considers collectable—\$13 million, as compared to \$9 million the year previous, and the majority is in excise tax. At the same time they are faced with an uncollectable problem, and you see the size of that. It is interesting to see the total of the uncollectable in relation to the collectable.

In due course, when they find that they cannot collect they seek permission to write this off pursuant to Section 23 of the Financial Administration Act, and during the year here, as is stated, 156 items totalling around \$3,000 were written off.

All the rest of the accounts, Mr. Chairman, relate to the other branch of the Department of National Revenue, which we should not discuss today with our witnesses, but they will probably raise a lot of questions you may want to ask.

The CHAIRMAN: Mr. Labarge, would you yourself, or an official in the Department, take, under the uncollectable items which this is what we are most interested in, the largest excise tax item that is uncollectable and give us all the particulars about it—what it is, how it came about and why it is uncollectable; and take the largest one in duties and taxes on importation, and give the same information on why it is uncollectable?

Mr. LABARGE: Mr. Bennett, do you have that?

Mr. BENNETT: No; I have not got it in detail for the largest particular item, Mr. Chairman, which before me here. I could not give you the detail of why it is uncollectable without seeing the files.

The CHAIRMAN: Have you a list there of any of the uncollectable accounts?

Mr. BENNETT: No; I have not a list before me here.

The CHAIRMAN: You knew this was going to be before the Committee.

Mr. BENNETT: I am afraid we did not contemplate questions on it.

Mr. BALLARD: Mr. Chairman, I wonder then if I might put a question. I notice—

The CHAIRMAN: Before we leave that, will you provide the Committee with that information in writing?

Mr. BENNETT: As an Appendix to today's proceedings, do you mean?

The CHAIRMAN: Yes.

Mr. BALLARD: Mr. Chairman, I was noticing in the column 1964 that the uncollectable items amounted to \$791,000. Further on in the narrative it says that during the year 156 items amounting to \$2,997 were written off.

If the items were uncollectable at the end of 1964, why was so little of it written off in the current year? Why was not the whole \$791,000 written off?

Mr. LABARGE: We must maintain these over a period of time, and keep trying at it. We sometimes even chase into graveyards to make sure the people are dead, you know, before we quit. We can only after five years in some cases, and ten years in others, go to council for the wiping out of them.

Mr. BALLARD: Then this term "uncollectable" is really not entirely accurate, is it? There is the possibility of collecting some of it.

Mr. LABARGE: Yes.

The CHAIRMAN: All right; we will have that information forthcoming. Mr. Henderson wants to ask one question under the final item.

Mr. HENDERSON: Mr. Chairman, there is one outstanding point from the follow-up report with which Members are familiar. I think Mr. Baldwin will have a vivid recollection of this because it relates to Section 22 of the Financial Administration Act, having to do with the remission of sales tax on oleomargarine.

Our witnesses will recall that the Committee, in its fourth report, 1964, expressed concern at learning "...that the undertakings given in 1949, that the Government would submit to Parliament legislation designed to exempt oleomargarine sold in Newfoundland from federal sales tax in the same manner as basic food stuffs in other parts of Canada, are not being carried out. Instead the authority provided to the Executive by Section 22 of the Financial Administration Act, had been used to render a tax applicable elsewhere in Canada completely inoperative in one province." The Committee went on to state that it did not consider that Section 22 of the Financial Administration Act should be used in this way.

This is one of the items in the follow-up report with respect to which there has been no action. It would seem to me proper to ask Mr. Labarge if he knows whether anything is contemplated to carry out the Committee's directive on this point.

Mr. LABARGE: When there is a suitable opportunity, shall we say, this will be taken care of. It falls into the area of the Excise Tax Act which is usually tied up with budgetary items, etc.

As you know, this varies according to the time; and I think this will be taken care of. I understand the terms with Newfoundland have been renewed at least to some extent, and this probably will bring it forward again.

The CHAIRMAN: Mr. Baldwin, have you any observations?

Mr. BALDWIN: I wish I had remembered this at the time we were debating the Bill about the \$8 million. I completely forgot about it.

It is always interesting to know that the Department intends that this be done, and that Section 22 will be put to the use to which it should be put.

The CHAIRMAN: Gentlemen, in closing may I intimate that the next meeting will be on Thursday, Room 208, at eleven a.m., and it will be with the Department of National Defence. You have each been supplied with a list of paragraphs.

APPENDIX "J"

June 15th, 1966.

Alfred D. Hales, Esq., M.P.,
Chairman,
Standing Committee on Public Accounts.
Dear Mr. Hales,—

During the meeting of the Standing Committee on Public Accounts on June 7th at which witnesses from this Department were present, a request was made for information with regard to the largest individual account categorized as uncollectible as of March 31st, 1965, in the totals for excise tax and customs respectively. A question was also raised with respect to the purchase of two Crown-owned houses at Coutts, Alberta, by Customs and Excise officers.

The information requested is as follows:

(1) *Uncollectible—Excise Tax—*

The largest uncollectible account included in the total as shown is an amount of \$46,961.05, which represents excise tax assessed under the Excise Tax Act plus penalty interest. This is a bankruptcy case which involved a proposal in bankruptcy dated November 17th, 1960. A claim was filed by the Department with the Trustee in the prescribed manner following an audit of the company's records to the date of the proposal. A recovery of \$1,000 was made from the proposal but the proposal was then annulled and the firm filed an authorized assignment in bankruptcy effective July 26th, 1961. Another audit of the company's records to the date of the authorized assignment was made by the Department and a final claim in the amount of \$46,961.05 was filed with the Trustee. The final statement by the Trustee in bankruptcy provided for no dividend for the Department and the Trustee was discharged.

In view of the fact that there is no possibility of recovery of all or part of this debt, it will be included in the Department's submission to Treasury Board for consideration by the Standing Interdepartmental Committee on Uncollectible Debts during this fiscal year.

(2) *Uncollectible—Duties and Taxes on Importations—*

The largest individual account as of March 31st, 1965, in this category is one for \$25,078.53. This case dates back to 1956 and results from an assessment of duty on textile goods, transshipped through and invoiced from England, which were properly dutiable under Most Favoured National Tariff rates rather than under British Preferential Tariff rates as entered. The importing company, which was without assets, discontinued operations early in 1959 and its charter was officially cancelled on April 12th, 1961. The case was submitted to Treasury Board for deletion in 1961 but at the meeting of the Standing Interdepartmental Committee on Uncollectible Debts in 1962 it was withdrawn to await the outcome of a U.S. Customs and Foreign Assets Control Branch investigation into the affairs of a Canadian firm of very similar name with the same principals. On March 3rd, 1966, this account was again submitted to Treasury Board for consideration by the Standing Interdepartmental

Committee on Uncollectible Debts. The Department has not yet received a decision.

(3) *Crown-owned Houses, Coutts, Alberta—*

Consistent with Treasury Board policy as expressed in Treasury Board Minute 626000 of May 29th, 1964, reading in part:

"It has been noted that because of improved transportation facilities, employees are no longer required to live at sites where, many years ago, government housing was built. In such circumstances, these dwellings are now surplus to requirements and they should be disposed of since the Crown has no business in competing with private landlords in the rental business and the costs of administration and maintenance often exceed the low rentals collected",

four houses at Coutts, Alberta, were declared surplus to Crown Assets Disposal Corporation after they become vacant. The Department has been informed that two of these houses were purchased by Customs officers in 1965; the other two were purchased by private individuals.

The two Customs officers concerned were appointed to the Port of Coutts in 1960 and had occupied other departmentally owned residences from 1960 to July 1965. After the houses had been declared surplus to Departmental requirements, Crown Assets Disposal Corporation had the responsibility to dispose of them and this Department had no further interest in their disposition.

Yours truly,
Raymond C. Labarge.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

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LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 14

THURSDAY, JUNE 9, 1966

Public Accounts, Volumes I, II and III (1964 and 1965)
Reports of the Auditor General to the House of Commons
(1964 and 1956)

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; and Messrs. G. R. Long, Assistant Auditor General; Mr. E. B. Armstrong, Deputy Minister of National Defence; Brig. L. W. Lawson, Judge Advocate General, Department of National Defence; and Mr. A. G. Bland, President, Defence Construction (1951), Limited.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,	Mr. Gendron,	Mr. Stafford,
Mr. Ballard,	Mr. Leblanc (<i>Laurier</i>),	Mr. Tardif,
Mr. Bigg,	Mr. McLean (<i>Charlotte</i>),	Mr. Thomas (<i>Maison-</i>
Mr. Cameron	Mr. Morison,	<i>neuve-Rosemont</i>),
(<i>High Park</i>),	Mr. Muir (<i>Lisgar</i>),	Mr. Thomas (<i>Middlesex</i>
Mr. Dionne,	Mr. Noble,	<i>West</i>),
Mr. Flemming,	Mr. Racine,	Mr. Tremblay,
Mr. Forbes,	Mr. Schreyer,	Mr. Tucker,
		Mr. Winch—(24).

(Quorum 10)

Edouard Thomas,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, June 9, 1966.

(19)

The Standing Committee on Public Accounts met at 11.09 a.m. this day, the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Baldwin, Ballard, Bigg, Dionne, Flemming, Hales, Leblond (*Laurier*), Lefebvre, McLean (*Charlotte*), Muir (*Lisgar*), Noble, Thomas (*Maisonneuve-Rosemont*), Thomas (*Middlesex West*), Winch (14).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long, Assistant Auditor General; Messrs. Douglas, Hayes, Laroche and Rider of the Auditor General's staff; Mr. E. B. Armstrong, Deputy Minister of National Defence; Brig. W. J. Lawson, Judge Advocate General; Lt. Col. England and Mr. Turner of the Department of National Defence; Mr. A. G. Bland, President, Defence Construction (1951) Limited.

The Chairman invited the Auditor General of Canada to inform the Committee of a correction concerning item 92 of his 1965 Report to the effect that no written legal opinion had been obtained with respect to sight entries. However, the Department of National Revenue has undertaken to obtain one for communication to the Committee at a later date.

The Chairman introduced the Deputy Minister of National Defence who, in turn, presented the members of his delegation to the Committee.

Questioning of the representatives of the Department of National Defence covered the following:

1964 Auditor General's Report—

Paragraph 56—National Defence administrative regulations and practices.

Paragraph 60—Equipment disposed of in error.

Paragraph 61—Medical fees improperly retained by a Service medical officer.

Paragraph 62—Town of Oromocto, N.B. (This item was deferred for consideration when the Department of Finance appears before the Committee.)

Paragraph 63—Military assistance to the United Nations and Indo-China Truce Commissions.

Paragraph 64—Pension awards at early age. (Considered together with paragraph 84 of the 1965 Auditor General's Report.)

The Committee decided that this type of information should be kept before it in the Auditor General's reports until such time as the question of pensions has been cleared up through the Committee on the Public Service.

Paragraph 65—Discretionary awards of Service pensions (considered with paragraph 85 of the 1965 Auditor General's Report).

Paragraph 66—Questionable pensionable service (also included paragraph 86 of the 1965 Auditor General's Report).

Paragraph 92(1)—Unpaid accounts carried forward to new fiscal year (also paragraph 140 of the 1965 Auditor General's Report).

The departmental representatives were requested to provide the Committee with samples of such accounts for discussion at the afternoon sitting.

At 12.58 p.m., the Chairman adjourned the meeting to 3.30 p.m. this same day.

AFTERNOON SITTING

(20)

The Standing Committee on Public Accounts met at 3.45 p.m. this day, the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Ballard, Bigg, Forbes, Hales, Leblanc (*Laurier*), Lefebvre, McLean (*Charlotte*), Muir (*Lisgar*), Stafford, Tardif, Thomas (*Maisonneuve-Rosemont*), Thomas (*Middlesex West*)—(12).

In attendance: (Same as at morning sitting).

The Deputy Minister of National Defence provided samples of accounts unpaid at the end of the fiscal year, as requested earlier in the day.

The Committee then turned its attention to Appendix 2—Non-productive payments—noted in the 1964 Auditor General's Report. In particular:

Item 2—Expenditure on housing projects subsequently abandoned.

Item 3—Additional cost due to faulty specifications and drawings.

Item 4—Contract for magnetrons cancelled.

Item 5—Additional costs due to construction delays, Ottawa.

Item 6—Additional costs due to delays in construction of hangars at Greenwood, N.S. and Summerside, P.E.I.

Item 7—Additional costs resulting from construction delays, North Bay, Ont.

Item 8—Consultants' fee in respect of abandoned work, Camp Wainwright, Alta.

Item 9—Cost of design of aircraft fuel storage facilities not proceeded with, Sydney, N.S.

The Committee thus concluded the review of the 1964 Auditor General's Report as it affects the Department of National Defence, with the exception of items 3 and 4 of the non-productive payments.

The Clerk of the Committee was instructed to arrange for representatives of the Department of Defence Production to appear at the next meeting when the Department of National Defence returns for the 1965 Auditor General's Report.

The meeting adjourned at 5.30 p.m. to the call of the Chair.

Édouard Thomas,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

THURSDAY, June 9, 1966.

● (11.05 a.m.)

The CHAIRMAN: Gentlemen, thank you for your promptness this morning and a full quorum. We are now ready to proceed.

If you will turn to your 1964 Auditor General's Report, page 25—but, before proceeding with paragraph 56 I am going to call on the Auditor General to make a correction concerning the last meeting. Mr. Henderson.

Mr. A. M. HENDERSON (*Auditor General*): At Tuesday's meeting, Mr. Chairman, when we were discussing paragraph 98, having to do with "sight entries" in my 1965 report, Mr. A. R. Hind, the Assistant Deputy Minister of Customs, stated that the Department of Justice had confirmed that the procedure followed by the department in granting an extension of time et cetera, was in accordance with the provisions of the Customs Act.

It will be recalled that Mr. Long informed the Committee that, in our examination of the department's files, we had not observed any opinion of the Department of Justice on file. Mr. Long stated in reply to, I think, a question from Mr. Leblanc, that section 24 of the Customs Act had appeared so clear to us that we had not asked for an opinion on the point from our own legal advisors. We now find there was no written legal opinion. It appears to have been a verbal one given to two departmental appraisers when they visited the Department of Justice and discussed the audit note with its civil litigation section.

Mr. Labarge, the Deputy Minister, has kindly consented to secure a written opinion from the Deputy Attorney General covering paragraph 98 and to furnish us with a copy.

The CHAIRMAN: We are pleased to have with us, as witnesses, this morning, Mr. Eldon Armstrong, Deputy Minister of National Defence. It is my pleasure to introduce Mr. Armstrong. I am sure the Committee is well acquainted with him, as he has been here before and I would ask Mr. Armstrong if he would introduce his other witnesses.

Mr. E. B. ARMSTRONG (*Deputy Minister, Department of National Defence*): Thank you, Mr. Chairman. Immediately on my left is Mr. Bland, the president of Defence Construction Limited and sitting to his left, Brigadier Lawson, who is the Judge Advocate General, and the chairman of the Pension Board.

The CHAIRMAN: Thank you, Mr. Armstrong.

Now, paragraph 56, Mr. Henderson:

56. *National Defence administrative regulations and practices.* The Public Accounts Committee in its Sixth Report 1964 expressed its pleasure that

appropriate changes had been or were in the process of being made in each of the Armed Forces administrative regulations which had been commented on in our 1963 Report. The Committee requested the Auditor General to inform the House of Commons of any case where the changes appear to be inadequate or where abuse and waste of public funds develop (see Appendix 1, item 22). The following paragraphs give brief outlines of the matters which remained uncorrected during the year under review and of several similar matters coming to our attention during the year.

1. RELEASE FROM SERVICE THROUGH PURCHASE.—In the 1963 Report (paragraph 64 (2)) it was noted that while the Air Force and the Navy required the payment of money for “other ranks” to obtain release on request, the Army had not done so since 1950. While the Department expected that the practice would be reinstituted with respect to the Army, orders giving effect to this have not yet been promulgated.

2. REMOVAL EXPENSES—MOBILE HOMES.—In the 1963 Report (paragraph 64 (3)) it was observed that although new instructions were being issued to deal with the situation, it would seem appropriate that the regulations also be amended to include specific directions with respect to the movement of mobile homes and their contents. The new instructions referred to were issued in the fall of 1963 and the Department decided that a year's experience would be required to assess their effectiveness. Based on experience gained in the trial period, new regulations are now being prepared.

3. EXCESSIVE PAYMENTS FOR TRAVEL ON TRANSFER—Servicemen are permitted by the regulations to use their personally-owned automobiles to transport themselves and their dependents to new places of duty and are entitled to claim mileage allowances to cover transportation, meals and accommodation expenses based on direct road mileage at various rates, formulated on the basis of a Service member travelling 300 miles per day. The regulations also provide reimbursement of the cost of meals and accommodation at destination during the period the serviceman is awaiting the arrival of his furniture and effects or while arranging permanent accommodation. In the course of audit it was noted that Service Orders presently permit the payment of both allowances in cases where moves of less than 300 miles are completed in one day. As a result, the entitlement for meals and accommodation is in effect duplicated and the cost becomes excessive. A restrictive instruction is now under consideration by the Department.

4. UNECONOMICAL MODE OF TRANSPORTATION—Under present regulations members on duty travel may at the discretion of the Commanding Officers use their motor cars for their own convenience. In the audit, instances were observed where two or more members of the same unit travelled to the same destination for the same purpose, each member being allowed to use his own car and receive the applicable mileage allowance. For example, five Army members travelled singly from Calgary, Alberta, to Meaford, Ontario, and return, each using his motor car and claiming the mileage allowances provided for by the regulations. Had they travelled as a group by rail, a saving of some \$400 would have been effected. When this matter was brought to the attention of the Department, instructions were issued to assist Commanding Officers to determine whether approval should be granted servicemen to use personally-owned motor cars for their own convenience on duty travel.

Mr. HENDERSON: The Committee has already considered the nine paragraphs shown here in my 1964 report, and I assume that members may not want to dwell, at any length, on them except perhaps to ask the witnesses some questions. So, with your permission, I will refer briefly to each paragraph to remind those present about the subject matter.

Paragraph 56, in my 1964 report here, lists four matters which had remained uncorrected during 1963-64, and several similar matters which had come to our attention during that year.

As I mentioned to you on May 3 two of the four items included in this note have since been satisfactorily cleared up. The first is "Release from service through purchase" where, in April 1965, the acting chief of personnel directed that release by purchase be reinstituted in the Canadian army and I understand the practice is now uniform throughout the service.

Item No. 3 having to do with "Excessive payments for travel on transfer"; under an order promulgated in December 1964, the entitlement to two allowances simultaneously for meals and accommodation under the circumstances described in this note was removed.

This, therefore, leaves two items which, incidentally, are also dealt with under the same heading in paragraph 73 of my 1965 report.

The first is item No. 2, "removal expenses—mobile homes," with respect to which, I am informed, the new regulations have now been promulgated by Order in Council, but presumably, the witnesses will have more information, and Item No. 4, dealing with "uneconomical mode of transportation," which does not yet appear to have been cleaned up.

The CHAIRMAN: Now, are there any questions? We will proceed to paragraph 60. Mr. Bigg?

Mr. BIGG: I was wondering whether the regulations on moving service personnel and mounted police now allow the serving member to take a cash grant of something like 75 per cent in lieu of the estimated cost of removal, in order that he can sell his household goods and make purchases at the other end. I believe it would be a saving to both, in a great many cases. I know of a case—in fact several cases—where old pianos have been moved from Halifax to British Columbia. The piano is approximately the same value at both ends; the cost of transporting is, in some cases, more than the piano is worth.

The CHAIRMAN: Mr. Armstrong, would you like to make an observation?

Mr. ARMSTRONG: Well, we have no provision of that kind in our regulations. I do not myself recall that we have ever given it any consideration but we could certainly have a look at it.

Mr. BIGG: I have had this matter brought to my attention, both before becoming a Member and since, where both members of the armed forces and the R.C.M.P. would be very pleased to take, as I have said, a 75 per cent or 80 per cent cost of the estimated cost of moving. It would save both them and the government a considerable sum of money. I think, I would just say, Mr. Chairman, that perhaps in our report, we might give that some consideration.

The CHAIRMAN: Thank you, Mr. Bigg, that might be a good suggestion.

60. *Equipment disposed of in error.* In April 1963 a unit of electronic aircraft navigational equipment, originally costing more than \$9,000 and having

an estimated replacement cost of \$15,000, was returned for repairs to an Air Force supply section. Due to an error, the equipment, instead of being repaired, was declared as surplus to Crown Assets Disposal Corporation and was sold to a customer, together with other surplus materiel, at a scrap price of \$20. The purchaser in turn sold the equipment for a nominal sum to an individual who, being aware of the actual value of the unit, refused to return it and be reasonably compensated.

A Board of Inquiry concluded that faulty procedures respecting the determination as to whether materiel should be declared surplus to Crown Assets Disposal Corporation contributed to the improper disposal and expressed apprehension that similar instances might have occurred. The Department has since revised its procedures.

Mr. HENDERSON: The case described here represented a straight mistake. I do not think any disciplinary action was taken by the department, which has since revised its procedures in order to prevent a case like this happening again. I do not believe it has yet been possible to secure the equipment from the purchaser, and it occurs to me that the equipment, might in fact, be obsolete today. I do not know whether the witnesses would have anything to add to that.

The CHAIRMAN: It has been more or less rectified so perhaps it would not occur again. So I think we could proceed.

Mr. HENDERSON: I do not think they got the equipment back, Mr. Chairman, if that is what you mean by rectification. They changed the procedures but I do not think the man has agreed to sell it to the department. There was a long delay on this.

Mr. ARMSTRONG: If I might just comment, that is correct. We have not got the equipment back. As a matter of fact, as it has turned out, we have not bought any further equipment of this kind since this unfortunate incident happened. As the Auditor General surmises, there have been changes in the equipment and it now looks as though we will not require any more, and I do not think we would really be interested at this date in acquiring it back.

The CHAIRMAN: Has anybody any further questions? It says: "Due to an error."

Mr. LEBLANC: In the Auditor General's report he said the department has now since revised its procedures so as to avoid future errors of that type. Now, could we have a brief summary of what the procedures are?

Mr. HENDERSON: Yes; I think an outline of that can be given. It is actually more in the realm of the relationship between the department, in reporting surplus requirements, and the Crown Assets Disposal Corporation. Perhaps Mr. Armstrong or one of his associates could give the required explanation?

Mr. ARMSTRONG: The problem that gave rise to this was shown from the unit as surplus; simple mechanical error. During the various steps taken in the department before a final declaration of surplus is made, as you will appreciate, there are a large number of items being declared surplus at various times, there was a failure to identify, through a catalogue number, precisely what this equipment was. It escaped the notice of those reviewing it that it was, in fact, a piece of equipment that should not be declared surplus. We have now intro-

duced a checking system to ensure that items of this kind are precisely identified by catalogue number, and we believe they are adequate to prevent a future occurrence of this kind.

The CHAIRMAN: Mr. Armstrong, would the department like to get this piece of equipment back again?

Mr. ARMSTRONG: Well, as I say, we would not, at the moment. We would have, had we been able to get it back at the time we discovered it had been disposed of in error, but now that a few years have elapsed, we no longer need it.

The CHAIRMAN: So you are satisfied to leave it in the hands of the customer who bought it through the Crown Assets Disposal Corporation.

Mr. ARMSTRONG: Well, I think at this point, that is probably the most economical thing to do.

Mr. BIGG: Well, as long as you make sure there was no collusion and that this was not declared in excess in order that some person connected with the armed forces could get this at a bargain rate for his own purposes. Was there a check made of that?

Mr. ARMSTRONG: So far as we are aware, there was no collusion, and I do not think it likely there would be, because this is not a piece of equipment which has any sales value in the commercial market.

The CHAIRMAN: Now, paragraph No. 61.

Mr. HENDERSON: I might mention, Mr. Chairman, for the information of Mr. Bigg, that the piece of equipment, according to our information, was offered to a number of prospective bidders and the Institute of Technology at Rimouski was the highest bidder. This was offered by Crown Assets Disposal Corporation.

Mr. BIGG: I was thinking that perhaps in terms of electronic equipment it might be done.

Mr. HENDERSON: Yes.

61. *Medical fees improperly retained by a Service medical officer.* Contrary to Service regulations and orders, an Air Force medical officer retained amounts received from the Group Surgical Medical Insurance Plan for medical treatment provided to dependents of Service personnel in a Service hospital. In March 1963 the officer was found guilty of conduct to the prejudice of good order and discipline and was reprimanded and fined \$200, but no action was then taken to recover the amount improperly retained by him.

In October 1963 the officer was released from the Service at his own request, without restitution having been requested from him or made by him. In August 1964 the matter was referred to the Department of Justice which has demanded payment of \$4,053 from the former officer.

Mr. HENDERSON: Paragraph 61 deals with "medical fees improperly retained by a service medical officer." We discussed this case on May 3, and the facts were gone over then, as several of the members here, who participated, will recall. Here cheques in payment of claims in respect of medical fees were made payable to the air force medical officer. Although he was an employee of the Crown and in receipt of a salary, the officer cashed the cheques and kept the money which clearly belonged to the Crown. The officer did this over a period

of two years, 1961 and 1962. As I believe was brought out in the evidence on May 3, it was known, at the time, what was going on.

No recovery of this money was sought by the department when the officer was found guilty in March 1963, and he was then fined \$200. Again, no recovery was sought when he asked and was given his discharge six months later, in October 1963.

My concern is that it took so long to effect recovery and then only \$2,500 was collected out of the \$4,053 which the officer had kept. I would suggest that you may want to ask the witnesses the reasons for these delays. To me they demonstrate, as is stated in the note, a lack of effective administrative action.

Mr. BIGG: Is this man pensionable?

Mr. ARMSTRONG: No; this man was not pensionable. He was one of the medical officers who had come in through the scheme whereby their tuition fees and so on are paid in the last couple of years. In fact, he had to pay a sum of approximately \$3,000 to buy his way out of the force, because of that. Because he left before his commitment had been fulfilled. Do you follow me?

Mr. BIGG: Yes, sir. I was just thinking about the ease of which it could be recovered if he were in receipt of a considerable pension.

Mr. ARMSTRONG: No; he was not. He had no pension. He paid \$3,040 to the Crown on his release.

Mr. BIGG: For his education.

Mr. ARMSTRONG: For his education.

The CHAIRMAN: Now, you will remember, when we were asking questions about this on May 3, we stipulated that the department officials would be here and you could proceed with your questions. I have forgotten just who those members were who wished to put questions, but I would like you to come forth with your questions now.

Mr. BALDWIN: I was not one of those who asked questions, I do not think, at the time, but the question posed by Mr. Henderson is a very logical one.

Could Mr. Armstrong or someone else give any adequate explanation on why this course of conduct was followed, because of the lengthy period of time without it being discovered. Is there any check now being made so that there cannot be repetition?

The CHAIRMAN: Mr. Baldwin, you are asking why no action was taken to recover the amount improperly retained?

Mr. BALDWIN: Well, first, why was it not discovered and stopped?

Mr. HENDERSON: The point Mr. Baldwin is making, Mr. Chairman, is that, as stated here, in March 1963 the officer was found guilty of conduct to the prejudice of good order and he was reprimanded and fined \$200. But they never asked him to pay back the \$4,053. Six months later he was released from the service at his own request so they had another chance to ask him for the \$4,000 back but, apparently, the records do not indicate that they did. My question is: Why?

Mr. ARMSTRONG: The reason for this was that at the time it was discovered that certain payments of this kind had been made, a total of I think five had

been paid to the officer in question. Subsequent to that, there was a lengthy investigation to determine the total amount that had been so paid, and it was not until some months later, when the investigation was completed, that the figure of \$4,000 was arrived at. Consequently, it was August 1964 before we were able to go to the Department of Justice and say: With respect to recovery action, here are all the details and the total sum is \$4,053. So that the difficulty was that we did not have the complete story at the early date.

The CHAIRMAN: When you had the complete story, what steps did you take, Mr. Armstrong.

Mr. ARMSTRONG: We referred it in August 1964 to the Department of Justice and they then pursued the case, with the lawyers of the doctor in question, who had then, of course, left the service, and the Department of Justice recommended, having regard to all the factors in the case, that it be settled out of court for a repayment of \$2,500, and that was, in fact, done.

Mr. BIGG: Were there any mitigating circumstances such as that he did not know the exact terms of his employment? Was there any indication in any way that he thought he was accepting these fees in good faith?

Mr. ARMSTRONG: Well, the officer himself did say that. There were written regulations on the subject, but he said he was not aware of them and, according to his statements, he was not, therefore, aware of the fact that he was doing anything he was forbidden to do.

Mr. BIGG: But he knew, when he was reprimanded.

Mr. ARMSTRONG: Oh, yes, of course.

Mr. BIGG: He knew, when he was reprimanded, that there were a great many more cases than the five for which he was reprimanded.

Mr. ARMSTRONG: He was charged in March 1963 of conduct to the prejudice of good order and discipline. In fact, there were a series of charges against him, and he was found guilty and reprimanded and fined \$200.

Mr. BALDWIN: Well, that then brings up a supplementary point, if he was charged in March 1963. By the way, did he plead guilty or was there an actual inquiry? Did he admit that he was responsible and guilty?

Mr. HENDERSON: He was fined \$200.

Mr. ARMSTRONG: He did not plead guilty but he was found guilty.

Mr. BALDWIN: He was found guilty. All right; having been found guilty he must then, at least, by a quasi-judicial decision, have been aware of the fact that he was wrong in what he had done. Did he not, at that time, disclose the full amount or was he in March 1963 pressed to disclose the full amount which he had wrongly taken and, if so, why was he not then pressed for further payments?

Mr. ARMSTRONG: There was not, of course, agreement between the department and the offender concerning the amount. I believe his lawyers contended that the amount was substantially less than we claimed and the final outcome, as I say, was a settlement for \$2,500.

Mr. MUIR (*Lisgar*): Could you tell us at what station this happened?

Mr. ARMSTRONG: It happened at Senneterre.

Mr. MUIR (*Lisgar*): I beg your pardon?

Mr. ARMSTRONG: Senneterre. It is in the province of Quebec.

Mr. MUIR (*Lisgar*): In the province of Quebec, yes. Where was this money that the doctor kept originally intended to go?

Mr. ARMSTRONG: Well, this arose out of the doctor treating, on that station, dependants of members of the forces. The dependants were covered under the group surgical-medical plan and the bills for the doctor's services were rendered, in the doctor's name, to the group surgical-medical plan and the cheques were paid to him. Now, under the procedures that should have been followed, they would have been rendered through the accounting office of the station and the payments would have been to the Receiver General.

Mr. MUIR (*Lisgar*): Do you know of any reason why the group medical plan accepted these bills?

Mr. ARMSTRONG: I do not think there really would be any reason to believe they would not accept them. The bills were submitted under the doctor's name, not as a member of the force. They were legitimate bills for services rendered, so far as they were concerned, and I do not think one could have expected them to identify these as being incorrect, being unaware of the fact that he was a member of the service, and that the bills should have been rendered in a different way.

Mr. MUIR (*Lisgar*): Do dependants, when receiving medical care, first have to get permission from someone on the military station before going to a doctor?

Mr. ARMSTRONG: Well, normally, as you, I think, are probably aware, in the Canadian armed forces dependants are not entitled to medical care from service medical doctors or service facilities. There are certain exceptions to this, and these include dependants who are overseas with a serving member of the service overseas, and in a few isolated stations in Canada where there is not really any other adequate source of medical care.

There are records, of course, kept in the hospital or medical facility regarding the treatment given there, and the arrangements which apply in these cases, require the billings in respect of the dependants who are members of the government medical service plan, to which most married members of the forces subscribe, to be submitted through the accounting office, after which, payment is then made to the Receiver General and credited to the Crown.

Checks are made, through the audit systems, and there is a cross-check made against the records of treatment in the hospital. I think there is now reasonable enough security to suppose that this kind of thing would not recur. It is conceivable, I suppose, in any system, that something of this kind could be brought about, particularly if there happened to be collusion. In this case there was no collusion between the doctor and the patient, but we do have, I think, a reasonably adequate check on this now, to ensure that this would not happen.

Mr. BALLARD: Mr. Armstrong, you mentioned the figure of three thousand and some dollars, am I right in assuming that this officer bought this way out of the service? If this was so, was this calculated on a mathematical basis or a formula of some kind?

Mr. ARMSTRONG: Yes, it is related to the doctor who, in this case, came under the plan for enrolment as a doctor, which involves the department paying his fees in the last two or three years of his course, and also paying him as a member of the force. Under the plan, a doctor is obliged to serve for a period which has varied a little but which was five years at this particular time. Now, if something occurs and it is agreed that he be released before that time, he is then obliged to pay back either all or a proportion of the amount expended by the department on him.

Mr. BALLARD: Now, when in the normal course you discharge personnel, I imagine that you do make a calculation of any deficiencies they have in inventory—if they hold an inventory—or in equipment and that sort of thing, and make some effort to deduct this from their separation pay. Is that not correct?

Mr. ARMSTRONG: That is correct, yes.

Mr. BALLARD: Now, in this particular case, it was evident that there was some deficiency, even though the amount was not determinable at the time, but it was known that there was a deficiency. Was any effort made, at the time of his separation, to have the officer put up a bond or cash until the amount of the deficiency was determined?

Mr. ARMSTRONG: Well, first of all, might I say that it was quite clear there were no assets, at the time of his separation, that we could collect any deficiency from and, as far as I am aware, there was no effort to make him put up a bond at that time. Quite frankly, I do not know how we could succeed in doing this. Perhaps the Judge Advocate General would like to comment on it.

Brigadier W. J. LAWSON (*Judge Advocate General*): Well, we could not see them telling an officer he could not be released unless he put up a bond, because he probably would not be a very satisfactory officer after that had occurred. And again, after reviewing the situation, and knowing the man was a medical doctor, we felt reasonably sure we could collect whatever he owed, in due course, once he got into private practice, as, in fact, we did collect the settlement the Department of Justice made.

Mr. BALLARD: You asked the officer for \$3,045 or something in that range, and I am just wondering what would have been the reaction had you said to him: "We know there is a certain deficiency and, as a result of your actions, we will require you to put up, say, \$7,500 for your separation, and an adjustment will be made after we determine the amount of fees you have collected."

Mr. ARMSTRONG: Well, I am quite sure that, at that time, he would not have had the money. He was just going out of the service and was not in practice. He apparently managed to raise the \$3,040, but I am quite sure that he could not raise any more at the time. I do not think he would have been a desirable officer to have kept against his will. The fact alone, that he committed these offences, was enough, I would think, to make the service glad to be rid of him.

The CHAIRMAN: Could I interject, following Mr. Ballard's question. Was any attempt to take an oath from this man. He owed the Crown money and what attempt was made by the department to have this man sign an oath that he was obligated to the Crown to make up the money that he took?

Mr. ARMSTRONG: There was no attempt made to have him sign an oath at that time. As I indicated earlier, the examination to get the total amount was still proceeding. Had we known, at the time we finished our examination, that there was \$4,000 involved, and had said to him, as I presume we would, that we wished him to pay this back; I think the result would still have been the same and that he would have done what he did later, which was to get a lawyer.

The CHAIRMAN: Why did it take the department a year and a half to find this out? It would appear to me that the department took altogether too long to settle this case. It took from March 3 to August—a year and a half—during which time you just could not find out how much that man owed you.

Well, we will let Mr. Armstrong answer that, and then Mr. Bigg, Mr. Noble and Mr. Lefebvre.

Mr. ARMSTRONG: Well, now, I do not know whether I can give you all the details of the investigation.

The CHAIRMAN: Well, we do not want a long answer, Mr. Armstrong, just a short reply.

Mr. ARMSTRONG: Let me just give you this. The full investigation of the case involved a great deal of work on the part of the air force police. Eight reports on the case were submitted by them between December 20, 1962 and April 6, 1964 and this investigation was completed on April 6, 1964. It was not until that time, the last police report having been received, that it was possible to determine the full amount involved.

The CHAIRMAN: It would appear that the police took too long. If I get into trouble, they get me a lot faster than that.

Mr. ARMSTRONG: Well, it is conceivable. There were apparently 62 payments involved and this is the time it took them to investigate.

The CHAIRMAN: Mr. Bigg, will you follow on?

Mr. BIGG: Was this man on a straight salary and did he have to do all this work, without any extra remuneration for looking after the families of the service personnel?

Mr. ARMSTRONG: He was paid as a member of the service.

Mr. BIGG: A flat salary?

Mr. ARMSTRONG: Yes; a flat salary.

Mr. BIGG: And he would not get a bonus from the Crown for attending to these special cases?

Mr. ARMSTRONG: No, he gets nothing for that.

Mr. NOBLE: Mr. Chairman, I have an idea there might be another side to this story. I was wondering were other medical services readily available to the service people's dependents?

Mr. ARMSTRONG: As I say, the only areas in which dependents are treated by the service are those where civilian services are not readily available, so I think you can assume they are not.

Mr. NOBLE: Well, then, could any of the services rendered be classified as emergency? There might have been somebody taken suddenly ill and they had to go to this fellow; they felt that they had to be handled quickly.

Mr. ARMSTRONG: Oh, I expect there could well be. I really do not know, but I assume that is quite possible.

Mr. NOBLE: Then I have a related question to the one Mr. Bigg asked. Is a service doctor under service employ 24 hours a day or would he have time to himself in which he might treat people, say, in his own home?

Mr. ARMSTRONG: Well, a service doctor, like all service people, is essentially employed 24 hours a day. Now, obviously, they are not expected to work 24 hours a day, but the regulations provide that he is not permitted to accept patients of this kind and charge fees for them.

Mr. NOBLE: Thank you.

Mr. BIGG: I am not quite finished with my own questioning. This is the point I am trying to get at: I wonder if this man was not fairly poorly paid for the service he gave and that he felt he had, as they say in law, "quantum meruit", that he deserved more remuneration because he was doing a great deal more work than he was expected to under the terms of his reference. I think, in this case, perhaps the officers of the Crown were justified in allowing him to get off the technical hook, if he was working 20 hours a day when he might have been expected to do eight like any other civil servant.

Mr. ARMSTRONG: Well, I think you would have to ask the doctor the first part of your question; I cannot really answer for his attitude. But I would say the officers of the Crown did not attempt to let him off the hook. The matter was pursued.

Mr. BIGG: Well, I do not know who attempted it, but he got off.

Mr. ARMSTRONG: Well, it depends on what you judge to be "off the hook". He paid a \$200 fine, he paid \$3,040 to get out of the service, he paid \$2,500 to settle the case, which, in the opinion of the legal officers of the Crown and in our own opinion, because we accepted it, in all the circumstances, was a reasonable settlement to make, rather than have the case go to court.

Mr. LEFEBVRE: My question, to the Deputy Minister, Mr. Chairman, is this: Did anybody try to ascertain whether this doctor tried to get out of the service before this was discovered, because it sounds to me, after the statement you made, as though he had no assets whatsoever. He knew it would cost him somewhere in the neighborhood of \$3,000 to get out, plus maybe legal fees if he was caught, and he used the government's money to pay his lawyer and pay himself out of the service.

Mr. ARMSTRONG: I do not know how you could arrive at that conclusion. He paid to get out of the service.

Mr. LEFEBVRE: Yes; but with money that he did not have the right to collect.

Mr. ARMSTRONG: I see. I do not know the answer to your question of whether he had any idea, before that, of getting out of the service.

Mr. LEFEBVRE: But he had not signified his intentions prior to this inquiry?

Mr. ARMSTRONG: No; not that I am aware of. But this would hardly be a possible way to do it, I do not think.

Mr. LEFEBVRE: If it was his only way out, and if he wanted to get out, because you said he had no assets whatsoever. Mr. Chairman, just a supplementary. Is there any difference between this and the customs duty officers collecting money in government time, as when yesterday we discussed the subject of customs officers who were selling licences on government time?

Mr. HENDERSON: That was an arrangement of very long standing, openly done, and countenanced by the department. In the case of this officer, they found him guilty of misconduct and fined him.

I think, if I may say so, Mr. Chairman, that the real point of this case is was there or was there not, in the opinion of the Committee, any lax administration in failing to nail this man while they still had him, even if it meant signing a promissory note or giving an undertaking that he would be responsible.

As it was, you can only assume that he used the Crown's own money to buy his discharge because that apparently is where he got his \$3,000. I think they did quite well in getting \$2,500 at the end of the road, but they might have done a lot better if they had followed, what seems to me, the normal commercial prudence in going after it while they had the man there.

Mr. THOMAS (*Middlesex West*): Is there any evidence that he used the money he had collected in this manner, to buy a discharge? Could he not have gone out and borrowed it from a finance company?

Mr. ARMSTRONG: Well, I do not think any of us know the source from which he got the \$3,040.

Mr. BIGG: Mr. Chairman, I am just a little alarmed at the slight air of blackmail; the fact that it might have cost the Crown some money to collect this money. I do not think we should allow the fact that we let this fellow off with a \$2,500 payment, merely because we did not want the necessity of taking him to court. We cannot win all our court cases but in a case like this where, in the light of what evidence we have, there was an open and flagrant attempt to beat the Crown, I do not see any extenuating circumstances due to his extra work and so on. If there is no evidence to that, I think the Crown should have done as the Auditor General says and protected our interests a little better, and certainly not allowed blackmail to interfere. It might cost you a lot of money to collect in one case, but in the next ten cases, perhaps people would be a little more careful with the Crown's money.

The CHAIRMAN: I think you summed that up fairly well, Mr. Bigg.

Mr. ARMSTRONG: Could I comment on that. I would like to say that there was no question of blackmail at all. This was a legal case. We had a suit against the man; he had a lawyer defending his suit. It was discussed by the legal officers of justice and his lawyer. As a consequence of that, the conclusion was reached that a \$2,500 settlement was a sensible arrangement to make in this case.

Mr. BIGG: I would not argue with the laws of the Crown or the presiding official. I will just go back to the old stand, then, and say that when we have a person in this position I think we should take previous steps to protect the crown's interest, short of a law suit.

Mr. ARMSTRONG: We would take the steps as soon as we could take them. Had we taken the steps, had it been possible if, in fact, we had had the information available to us earlier than April 1964, we certainly would have taken the steps.

I suggest to you, though, that the problems, in terms of how much would be collected, would essentially be the same. There was disagreement concerning the amount owed to the Crown and eventually it was settled for \$2,500.

Mr. BIGG: But you knew that there was money owed to the crown?

Mr. ARMSTRONG: Oh, yes.

The CHAIRMAN: Well, I think we will go on. Mr. Armstrong I do not think you have proven to the Committee—Mr. McLean, I am sorry, I forgot your name, I had it down.

Mr. McLEAN (*Charlotte*): This doctor was supposed to serve the service personnel. The dependants came in under separate provision. Could he refuse to serve these dependants? Could he refuse to get up in the middle of the night and go to them or anything like that? Was he forced to do it?

Mr. ARMSTRONG: Well, I would think he really could not refuse. No; in this particular case this was part of his duty. Would you like to comment on that, Brigadier Lawson?

Mr. LAWSON: Well, he could not refuse. It was his duty to this work, it was part of his duty.

Mr. McLEAN (*Charlotte*): For all the dependants?

Mr. LAWSON: On this particular station, yes.

Mr. McLEAN (*Charlotte*): And he was on duty 24 hours?

Mr. LAWSON: Yes, all officers are on duty 24 hours.

Mr. THOMAS (*Middlesex West*): Another question, Mr. Chairman, would this officer, under the circumstances, come under military law or would he come under civilian law? Or does he have a choice or did the Department of National Defence have a choice?

Mr. LAWSON: As an officer he is, of course, subject to military law, but all officers are also subject to civil law. So he would be subject to both.

Mr. BIGG: Was he alone on this post; was he the only doctor available?

Mr. ARMSTRONG: He was the only doctor on the station.

Mr. THOMAS (*Middlesex West*): Might I ask of the Advocate General, whether he is satisfied with the settlement?

Mr. LAWSON: Yes; I think it is a very fair settlement. There is one thing which you perhaps have not considered. I understand 60 different dependants had been treated. Well now, if we had had to go to court, we would have had to call those dependants as witnesses. By this time, they were scattered all over Canada and overseas and the cost of proving our case would have been tremendous.

Mr. THOMAS (*Middlesex West*): Then the officer agreed to pay the \$2,500, he was willing to settle for that; the department were willing to settle for that.

Mr. LAWSON: This was the advice of the law officers of the Crown that we should accept this and we took that advice.

Mr. MUIR (*Lisgar*): How many people would there be on this particular station?

Mr. ARMSTRONG: I could not be absolutely precise on that. I think, if I remember rightly, the establishment of a station of that kind is about 200.

Mr. MUIR (*Lisgar*): That is military personnel?

Mr. ARMSTRONG: No, I think that would include some civilian personnel; mostly military.

Mr. MUIR (*Lisgar*): But that would not include dependants?

Mr. ARMSTRONG: No; not including dependants.

Mr. MUIR (*Lisgar*): In other words, he would not be looking after as many people as an ordinary general practitioner?

Mr. ARMSTRONG: Well, I am not an expert on this; my guess would be probably not—no.

Mr. MUIR (*Lisgar*): Because the total of the dependents would not run much more than 1,000.

Mr. ARMSTRONG: Yes; that would be about right. I am not sure of the average number of patients looked after by the average general practitioner in Canada. I think it runs into a couple of thousand, does it not?

Mr. MUIR (*Lisgar*): I would believe any where from 2,000 to 5,000.

Mr. ARMSTRONG: Two thousand to 5,000.

The CHAIRMAN: Mr. Lefebvre, and then we will move to the next section.

Mr. LEFEBVRE: Mr. Chairman, does anybody from the department here know how close this base is to the town of Senneterre, and how many private doctors there are in the town of Senneterre?

Mr. ARMSTRONG: I am afraid I do not have the answer to that.

Mr. LEFEBVRE: Because I do not think this place is as isolated as we have been led to believe.

The CHAIRMAN: Well, gentlemen, I think this has been an interesting discussion. I would say, and it will be up to the Committee when we write our report, that if there had not been the laxity in collecting the money, and if it had not taken a year and a half to find out how much he owed, we would not be in the position we are in. However, we each have had our say on it and we will have to come to a conclusion the best we can.

All right, paragraph No. 62.

62. *Town of Oromocto, N. B.* In 1955 the Governor in Council approved a proposal by the Department of National Defence to establish the Town of Oromocto, N.B., adjacent to Camp Gagetown. Subsequently in 1956 the Town was incorporated by an Act of the Province which provided for an administrative board of seven commissioners, four appointed by the federal government and three by the Province. The object in establishing the Town was to provide municipal facilities to serve not only military personnel stationed at Camp

Gagetown but a civilian population as well, in order to avoid the growth of a purely military community.

To implement the proposal, the Department turned over to the Town without charge roads and services already installed in the housing area together with a fringe area of land. This assistance was augmented by capital grants totalling \$1,500,000 to enable the Town to further develop its roads and services for the purpose of attracting private sponsors for the various shopping, civic institutional and industrial areas. To complete the physical development of municipal works, the Crown provided capital assistance loans to the Town amounting in all to \$4,450,000 over the years from 1957 to 1961.

In the beginning it was expected that the operating expenses of the Town would be financed mainly from grants in lieu of taxes on federal property and that this burden would shift gradually as civilian interests in the Town developed. The shift has not materialized with the result that annual operating grants provided by the Crown continue at a high level and it is now expected this condition will exist for many years to come.

The following table summarizes the capital grants, capital assistance loans and operating grants paid to the Town since its inception:

Year	Capital grants	Capital assistance loans	Operating grants
1955-56	\$ 750,000		\$ 50,000
1956-57	750,000		50,000
1957-58		\$ 1,500,000	350,000
1958-59		1,500,000	960,000
1959-60		1,000,000	1,656,000
1960-61		450,000	1,600,000
1961-62			1,529,000
1962-63			1,489,000
1963-64			1,800,000
	<u>\$ 1,500,000</u>	<u>\$ 4,450,000</u>	<u>\$ 9,484,000</u>

Repayments of the above capital assistance loans have totalled \$735,000 to March 31, 1964 while interest amounting to \$1,110,000 has been received to the same date. Funds for these payments have been provided out of the annual operating grants provided by the Department of National Defence.

The Town's operating costs for the calendar year 1963 amounted to \$2,030,000 while its revenues totalled only \$209,000. The Department of National Defence owns 1,900 housing units representing about 90 per cent of the value of all property in the Town.

A substantial part (over 50 per cent) of the annual operating costs relates to expenditure for the operation of seven schools attended by dependents of servicemen occupying married quarters in the Town. The cost of operating the schools has been a matter of concern to the Department and Treasury Board for some time. A study of this matter by Treasury Board staff disclosed that the cost per pupil for 1962 in the Fredericton, N.B., school system was \$205 compared

with \$304 per pupil at Oromocto. The Treasury Board has requested the Department to advise it as to the action proposed to reduce the excessive education costs.

The capital assistance loans referred to above have from year to year been classified as assets in the Statement of Assets and Liabilities (Exhibit 2). In both the 1959 and the 1962 Reports the Audit Office suggested that in view of the very small amount of revenue accruing to the Town (currently and in the foreseeable future) it seemed unrealistic to continue to treat the loans to the Town as an asset item for purposes of the Statement of Assets and Liabilities. The Public Accounts Committee, after reviewing this matter, recommended in its Sixth Report 1964 that the Department of Finance give consideration to writing off these loans to expense (see Appendix 1, item 25).

Mr. HENDERSON: This deals with the town of Oromocto in New Brunswick. In this note the table is given on the next page, which shows the capital grants, capital assistance loans and operating grants paid by the federal government to the town since its inception.

Our concern here—the matter was certainly reviewed by this Committee in 1964, and our witness today, Mr. Armstrong, will recall this discussion—is that, in view of the very small amount of revenue currently accruing to the town and in the foreseeable future, it appears to us unrealistic to treat these loans to the town as an asset item for purposes of the statement of assets and liabilities of Canada. In its sixth report 1964, the Committee agreed with our position and asked the Department of Finance to give consideration to the writing off of these loans.

In my follow-up report to you in 1966, I quoted from a letter written by the Minister of Finance on March 4, 1965, in which he said that a study was currently under way to determine how these loans, and indeed all assets such as these should be reflected in the accounts of Canada. I told you at the last meeting that I had written to Mr. Bryce for further information and that we had had a brief discussion about it. He has since been good enough to write me a letter, part of which I should like to quote to this Committee. In doing so, perhaps Mr. Armstrong could add something to the information Mr. Bryce is furnishing us, because it throws an interesting light on it. Mr. Bryce writes, and I am quoting as follows:

In considering this matter account should be taken of course to the fact that the town of Oromocto is not in default either as to principal or interest on its loan. Approximately 25 per cent of the town budget which includes payment of interest and repayment of the principal on the loan is contributed by the province and by private taxpayers. If the loan were to be written off the federal government would therefore forgo the 25 per cent share of the semi-annual payments which is contributed by non-federal sources. These other sources are not entitled to the benefits which would follow from such a write-off.

Although the major portion of the payments on the outstanding capital assistance loans continues to be indirectly financed by the Department of National Defence through its operating grants, it is considered that the amounts of these grants can be more effectively controlled by continuing the present loan arrangement than a loan write-off. In this way, the Department of National Defence exercises a stronger control

over the annual budget of the town, which is desirable in view of the large share of the town revenues contributed by the federal government.

In your 1964 and earlier reports you observe: "It seems unrealistic to treat the loans to the town as an asset item for purposes of the statement of assets and liabilities in view of the small amount of non-federal revenue accruing to the town."

Although I believe these loans should not be written off, I agree that these transactions should be reflected more realistically in the financial statements of Canada. In future, they will be set out in the schedule to the statement of assets and liabilities under a special subheading "Recovery Likely To Require Parliamentary Appropriations," which we have used in the 1965 public accounts in the case of Crown corporations.

I thought this information would be of interest to the Committee, particularly the reference in the last paragraph to creating an asset to be entitled "Recovery Likely To Require Parliamentary Appropriations" because, to say the least, it makes it a dubious asset.

Nevertheless, this treatment will be accorded to the loans from the town of Oromocto and they will go into that classification. I do not know whether Mr. Armstrong would have anything to add to this information. You are probably aware of the developments which Mr. Bryce has written about.

Mr. ARMSTRONG: Yes; I was aware of them.

The CHAIRMAN: Any questions?

Mr. FLEMMING: Well, Mr. Chairman, my question would be: Do these loans include loans made some years ago to a development corporation in a town or are they loans directly to the town?

Mr. HENDERSON: I understand they are paid directly to the town, Mr. Flemming.

Mr. FLEMMING: Well, then, the question is: Are there loans in connection with the development of the town, shopping centre, and so on? I know that some loans were made to a corporation and I assume, then, that this is not a part of the loans made to a corporation for those purposes.

Mr. HENDERSON: Our information is that it is not, unless Mr. Armstrong has something to add to that.

Mr. ARMSTRONG: No; I think that is right. The subject matter now being discussed refers to the town and not to the development corporation.

Mr. FLEMMING: I wonder if Mr. Armstrong would know, offhand, if the development corporations are meeting their obligations. My information from outside sources is that they are, and I am just wondering.

Mr. ARMSTRONG: Yes, they are. My recollection is that last year they showed a small profit of something in the order of \$50,000.

Mr. BIGG: Is the town of Oromocto really anything other than a military facility? Is this only a service town for the military camp, and would it fold up if the military camp folded up like that in Cold Lake in Alberta? Is it the same type of town?

Mr. ARMSTRONG: Well, it is obviously predominantly military at the present time and, if the military camp were not there, there clearly would not be a very large town left.

Mr. BIGG: So, if this is an asset at all, it is purely contingent on the adjacent military camp remaining in full operation; is that correct?

Mr. ARMSTRONG: That is correct. The hope is that the town will gradually develop industry and commercial enterprise that is not entirely dependent on the military, and this has slowly been evolving. At the present time 28 per cent of the revenue, including provincial grants, comes from sources other than federal.

Mr. BIGG: But 90 per cent of the housing is strictly owned by the Department of National Defence?

Mr. ARMSTRONG: Yes; I think about 90 per cent; that is probably right.

Mr. MUIR (*Lisgar*): The \$304 per pupil; that is operating expense is it? There is no capital involved in that?

Mr. ARMSTRONG: That would be operating expenditure.

Mr. MUIR (*Lisgar*): To what do you attribute the high cost per pupil?

Mr. ARMSTRONG: Well, this has been pretty carefully examined. I think the cost now runs in the area of \$200. This is net cost, that is, after receiving provincial grants, and so on. The cost is slightly higher than Fredericton for, I think, legitimate reasons. First, we do find it necessary to pay marginally higher salaries in Oromocto than are paid in Fredericton, in order to get teachers to that particular area. There has been, particularly at the high school level, some tendency towards a lower pupil population per class in the senior classes. I think that is being gradually overcome. This causes the pupil cost to be somewhat higher, but it has been coming down since this report was written.

Mr. MUIR (*Lisgar*): By lowering the number in each class, you pay more teachers and you do not get any more provincial grants?

Mr. ARMSTRONG: Well, if you only have 18 pupils in the class your cost is higher than if you have 30 or 35.

Mr. MUIR (*Lisgar*): No; but in seven schools, of course they would not all be high schools, would it be necessary to have just 18 pupils?

Mr. ARMSTRONG: Oh, we do not. I am just suggesting that, in my analysis of this, this was one factor. In the senior classes at the time the pupil population tended to run a little lower per classroom than you might find ordinarily in a town like Fredericton.

Mr. LEFEBVRE: Could somebody tell us what is the population of this town?

Mr. ARMSTRONG: It is approximately 15,000.

Mr. LEFEBVRE: Does this budget of \$2,030,000 agree with the average for a town of 15,000? Does it not seem rather high compared with other towns of similar size?

Mr. ARMSTRONG: Well, I cannot really answer you; I suppose this depends on the town. I do not think I can make a general statement on it.

Mr. LEFEBVRE: Well, what I am getting at Mr. Armstrong, is that, as the major taxpayer there—I think we own 90 per cent of the value of all property in the town—is the Department of National Defence represented on the town council in this community?

Mr. ARMSTRONG: Yes; the federal government has four members on the board of commissioners; it is a board of seven.

Mr. LEFEBVRE: Is it an elected town council?

Mr. ARMSTRONG: No; it is not an elected council. It is an appointed council.

Mr. LEFEBVRE: I see. And have the books of this town ever been audited by the Department of National Defence? Are they satisfied that the \$2 million budget is quite normal?

Mr. ARMSTRONG: Well, we are satisfied that it is a proper budget, and the town's books are audited by chartered accountants annually, and, as I say, we have our own people on the board of commissioners.

Mr. BIGG: I am not quite clear why the item has been brought up for renewal.

Mr. HENDERSON: This assistance is being made in the form of loans, repayment of which is very dubious, and therefore the question arises, should they not be written off to budgetary expenditure by Canada rather than treated as assets? That was the point in which the Committee was interested.

Mr. BIGG: But it seems to me that it is a military expenditure rather than a realistic asset.

Mr. HENDERSON: Oh, yes, that is right. It might be more properly directed, and no doubt will be discussed when Mr. Bryce is here, but Mr. Armstrong was good enough, at your last meeting, to put you completely in the picture regarding this and I wanted to bring you up to date on it.

Mr. ARMSTRONG: Mr. Chairman, with respect to the last question, I think I might add that the characteristics of this town are really quite different from those found in a normal town. The population, because it is predominantly military, is a young population and therefore the proportion of school children is very high. So the schooling costs in this town run to more than half of that budget. So there are differences in the town.

There is a publication that was put out by, I think, the Economic Council for the Atlantic Provinces, and this describes the different characteristics of the town from that of a general town. If you are interested, you could get that and read it, because there are quite a few differences.

The CHAIRMAN: All right. This is a very interesting subject. I know that new members on the Committee have not had the opportunity to learn more about this town of Oromocto and we are quite willing to have all these questions answered in order to be familiar with it. I think you will have an opportunity to ask further questions when Mr. Bryce is here.

Mr. Ballard you had a question, and then Mr. Flemming.

Mr. BALLARD: Well, Mr. Chairman, my point was partially covered, but I would expect that the Auditor General has determined, to his satisfaction, that

the military personnel occupying this town are not being given extra amenities in comparison with personnel in other P.M.Q.'s of similar stations.

The other thing is that I am still not satisfied, Mr. Henderson, with the method, or even the suggested method, of treating these expenditures on the financial statements of the town. I daresay that any moneys expended for the operation of the normal P.M.Q. area would be written off to expense on the national accounts. I can see no justification for trying to cloak these expenditures, which they actually are—and really not loans—by calling them by any other name than a straight expenditure, and I think that either you or this Committee should go back to the treasury board and insist that these advances be written off to the normal expenses of running the military.

Mr. HENDERSON: If I may speak to that, Mr. Chairman, Mr. Ballard is saying exactly what we think. I have referred to the same problem in my 1965 report dealing with loans that are made to certain Crown corporations repayment of which is highly questionable. I would suggest that this be one of the subjects to be taken up and discussed with Mr. Bryce when he appears before the Committee on, I believe, June 17.

Mr. FLEMMING: Mr. Chairman, actually my question has been partially answered by Mr. Armstrong in connection with the cost of education of this town because as he says, these are younger people and they have larger families.

But, coming to the point the Auditor General has raised, I belong to the class of people which always knows that once you write off one of these bills, you have very little chance, if any, of ever recovering anything. I have a great reluctance to seeing things written off too quickly, but I think the Auditor General has made a good suggestion. When Mr. Bryce comes we will have an opportunity to discuss the matter further.

Mr. ARMSTRONG: If I could comment on this, I seldomly have a different viewpoint than the Auditor General, but I do in this case. This particular enterprise is quite different from anything else we run in the Department of National Defence. Where we have a military camp, we set up married quarters; they are all part of the camp. They are paid for by the Department of National Defence and, of course, the cost of the quarters, and everything else that goes into it, is charged as an expenditure. But, in this case, the concept was different. The object was to establish a community in which the married families would be a part.

Now, it is true that that community is predominantly military. The hope is that the community will grow; it has been growing gradually. As I say 28 per cent of the revenue is now coming from non-department sources. It seems to me the essence of the problem is to treat it essentially as a municipality with the differences that have been necessary, in the sense of having an appointed council for the time being. Ultimately, one would hope that it would become an elected council and it would be a regular municipality. If one accepts that objective, then I think you really have to treat it in this way, rather than write the loans off, because this is part of the cost of the town, financed by the issuance of debentures and so on.

It is true that the repayment of these is 75 per cent out of federal revenue, at the moment, because only 28 per cent of the revenue comes from other

sources. But, in terms of the objectives and of running the town, it seems to me this makes pretty good sense.

Mr. LEFEBVRE: The book says 90 per cent of the town is owned by the Department of National Defence. The Deputy Minister refers to 28 per cent being owned by other sources. Which is correct?

Mr. ARMSTRONG: I think obviously there is a difference in times.

Mr. LEFEBVRE: It has changed that much?

Mr. HENDERSON: Yes; there is a difference in time. It is moving along in the direction they had hoped. I do not disagree with what Mr. Armstrong says, Mr. Chairman, but, however, writing it off "dead" on the books, does not necessarily extinguish it. I am referring more, as Mr. Ballard did, to the treatment; that is calling something an asset when it is not an asset.

Mr. McLEAN: (*Charlotte*): It has been said that you want invested interest to go in there, but the more the government has hanging over the head of someone going in there, they would not want to go in. You can take it that on the one hand; if you wrote this off, you would be enticing investments to go in there, but on the other, if this keeps rising all the time you are going to keep investment out.

Mr. BIGG: My suggestion is quite different. I would suggest we have a sliding scale of some kind. I imagine the businesses there, such as tailor shops, and so on, are quite lucrative. As their owners come to own more of the town and the assets of the town, they should take on an increasing amount of the cost. Perhaps they do this already; I do not know.

Mr. HENDERSON: Oromocto is developing along those lines, if I understand what Mr. Bryce writes and what Mr. Armstrong says.

The CHAIRMAN: Gentlemen, can we conclude this? Mr. Thomas, I am not doing you out of a question, am I?

Mr. THOMAS (*Middlesex West*): May I make this suggestion, Mr. Chairman. In as much as Public Accounts Committee in 1964 recommended that these loans be written off, unless there is now some very valid reason for changing the opinion of the Committee, I think we should stay with what we have done before.

Mr. BIGG: As I understand it, you were not suggesting that the loans be written off so much as that they be changed to a different category for accounting purposes. Is this not so?

Mr. HENDERSON: We are speaking of the statement of assets and liabilities which is the Department of Finance's statement. That is why I say I think we can finally dispose of this when Mr. Bryce is our witness.

The CHAIRMAN: Well, now, gentlemen, we are taking quite a bit of time here this morning. We have a lot of work with this department. I would ask you to have your questions short and the answers the same way so that we can proceed a little faster if possible.

Now, paragraph 63.

63. *Military assistance to the United Nations and Indo-China Truce Commissions.* Canadian defence forces are presently engaged in peace-

keeping operations for the United Nations in five countries. In this connection, the Department of National Defence has absorbed the initial cost of transporting equipment and personnel to the Middle East and the Congo, travel and removal expenses in Canada, normal pay and allowances, clothing and personal equipment, etc., which at March 31, 1964 totalled approximately \$39 million. In turn, the United Nations accepted the responsibility of reimbursing Canada for foreign and special allowances of serving personnel, abnormal depreciation of equipment supplied by Canada and used by Canadian forces, the cost of operating special Air Force flights at the request of the United Nations, and items such as vehicles, ordnance stores, and medical supplies specifically ordered from Canada for the use of the United Nations forces. Total recoverable expenditures over the year have amounted to \$23 million, of which \$2,700,000 was outstanding at the fiscal year-end.

Canada also has military personnel serving with the Indo-China Truce Commissions in Vietnam and Laos. Expenditures relating to these operations are on a cost-sharing basis and by March 31, 1964 amounted to some \$10,200,000, of which \$8 million was absorbed by Canada and \$2,200,000 classed as recoverable. Outstanding recoverable expenditures at the fiscal year-end amounted to \$415,000.

Mr. HENDERSON: There is no point in discussing this, Mr. Chairman. It was talked about on May 5, when I gave certain information, so I suggest we move on to the next item.

The CHAIRMAN: All right. Now, paragraph 64.

64. *Pension awards effective at early age.* In our 1963 Report (paragraph 68) reference was made to the number of servicemen being retired at an early age with immediate annuities. It was stated that in such cases the amount of the annuities is not large due to the short periods of service, but the potential cost is substantial because of the relatively longer expectancy of life. The Department of National Defence had been considering the advisability of introducing deferred pensions similar to those available to civilian employees.

The Public Accounts Committee gave consideration to this problem and in its Sixth Report 1964 requested that it be kept informed as to the progress being made (see Appendix 1, item 28).

No change in this respect has yet been made in the Canadian Forces Superannuation Act and we noted that during the year under review 286 immediate annuities, aggregating \$342,000, were awarded by the Service Pension Board to retiring Service personnel ranging in age from 27 to 40 years. About 57% of these retirements were based on medical grounds, and in the majority of the other cases the normal pension based on years of service was reduced up to 30% because of the early age of retirement.

Mr. HENDERSON: Paragraph 64, "pension awards effective at early age." Here, we might dispose, simultaneously of paragraph 64 and also paragraph 84 of my 1965 report, which is on the same subject and which updates the subject matter.

The CHAIRMAN: All right, then, we will also include paragraph 84 of the 1965 report.

84. *Pension awards effective at early age.* In previous Reports reference was made to the number of servicemen being retired at early ages, in some instances under 30. Although the amounts of annuities are not large due to the short periods of service, the potential cost is substantial because of the relatively longer life expectancy. During the year, 391 servicemen aged 40 and under were retired with immediate annuities aggregating \$472,000 annually. In 1963-64 there were 286 servicemen in this category retired with immediate annuities and in 1962-63 the number was 201.

The Department has been reviewing the existing provisions of the Canadian Forces Superannuation Act and has been considering the merits of providing deferred annuities similar to those available to civilian employees but does not contemplate proposing any changes until a more detailed study embracing the implications of the Canada Pension Plan has been completed. (See Appendix 1, item 20.)

Mr. HENDERSON: You will observe that we had 286 servicemen in this category who retired with immediate annuities in 1964 compared with 201 the year previous and when you look at paragraph 84 of my 1965 report you will see that the number has risen to 391. We have been waiting to see what action the department is going to take, and the latest available information I have on this point is in my 1966 follow-up report where I told you that I been advised on March 5, 1965, by the Minister of National Defence. I will quote what he wrote me, which reads as follows:

No decision has been taken on possible amendments to the Canadian Forces Superannuation Act pending the completion of studies undertaken following the decision to integrate the forces, which will have a bearing on those decisions.

Perhaps Mr. Armstrong could explain that sentence.

Mr. ARMSTRONG: What the Minister is referring to is this: When the decision to integrate the forces was taken in July 1964, shortly thereafter, studies were put under way to deal with the whole field of military personnel policy because, while our arrangements were essentially the same as in the past, there were differences among the services.

The studies undertaken are now almost complete. However, it will, I think, take some considerable time to examine them and to come to conclusions, after which decisions will be taken on what changes, if any, would be desirable in the pension arrangements.

Mr. HENDERSON: May I ask the question whether any of these changes found their way into the Minister's remarks in the House on Monday, when Bill No. C-193 was being discussed?

Mr. ARMSTRONG: Well, there are some changes in Bill C-193. It deals principally, of course, with the problems related to the integration of the Canada Pension Plan. There are, I think, several other amendments to the Canadian Forces Superannuation Act. These are not of the fundamental nature we are talking about when we are referring to the changes the Minister refers to in commenting on your observation in paragraph 64.

The CHAIRMAN: Any questions?

Mr. MUIR (*Lisgar*): I was wondering if the practice is to be continued of allowing servicemen under 40 to receive a pension? In consideration of the fact that you have a shortage of military personnel, and that you are finding it difficult to replace them by enlistment, why would you continue to offer pensions to men under 40?

Mr. ARMSTRONG: The nature of military business is such that age is significant in certain military jobs, and people over a certain age are not suitable. The normal retirement ages now vary a little in the services; they run from 45, I think, to 55, depending on the rank. But, fundamentally, in those particular cases of retirement, say, under 40, those are situations where a man is retired because of some cause that makes him unsuitable for continued service. If he has had 10 years service in the regular forces and he is retired on an obligatory basis for medical reasons or some other reasons, other than misconduct, he is entitled, under the law, to a pension.

Mr. MUIR (*Lisgar*): A further question: How long does he have to be in the service before entitlement to a full pension?

Mr. ARMSTRONG: Well, the maximum pension is based on 35 years' service.

Mr. MUIR (*Lisgar*): He is paid pro rata.

Mr. ARMSTRONG: Yes; it is two per cent per year of service based on a six year average of salary.

Mr. THOMAS (*Middlesex West*): Could the Deputy Minister advise us whether any progress is being made regarding the last paragraph of item 64, which reads as follows:

In considering this matter, the Public Accounts Committee noted that the department is endeavouring to achieve a system under which the entitlements to all pensions would be specific. If this were possible, it would eliminate the considerations of the Pension Board which is now responsible for establishing—

The CHAIRMAN: Mr. Thomas, what book are you reading from?

Mr. HENDERSON: I think you are reading paragraph 65, and we are still on paragraph 64. We are coming to "discretionary awards."

Mr. THOMAS (*Middlesex West*): Oh, I am sorry. I did not notice the change in the page. You are right.

The CHAIRMAN: Well, if there are no further questions we will proceed with paragraph 65 then.

Mr. HENDERSON: Well, just one point on paragraph 64, Mr. Chairman. I continue to furnish the House with this information because the Committee, at its last session, requested me to keep it informed on the progress being made in the introduction of deferred pension benefits for servicemen retiring at these comparatively early ages.

I should like to know if it is the wish of the Committee that I continue to keep the House informed in this manner so that it comes up for future discussion later. The Deputy Minister explained the study that has been under way and there is a lot more to be done. We are not yet clear as to what the Hon. Mr. Benson was referring to when he spoke in the House on Monday when he

said that some of these changes related to proposals of the public Accounts Committee. We have not been able to determine just what proposals they covered, but we shall be ascertaining that. So if it is your wish, I will continue to pursue this.

The CHAIRMAN: Is it the Committee's wish, especially until this study is completed, at any rate?

Some hon. MEMBERS: Agreed.

The CHAIRMAN: Now, paragraph 65.

65. *Discretionary awards of Service pensions.* In our 1963 Report (paragraph 69) it was noted that in determining pension awards, every possible consideration is given to the welfare of the individual serviceman, and it is sometimes questionable whether a reasonable balance is struck between fairness to servicemen on the one hand and economy of public funds on the other.

In the year under review similar cases were noted of which the following are examples. In four instances servicemen were awarded full annuities on being retired compulsorily for medical unfitness. Information on the files indicated the reason given for retirement was of secondary importance to others, which, had they been recognized officially, would have resulted in the aggregate in a reduction in capitalized value of the annuities awarded of approximately \$45,000. Each of the servicemen was 28 years old and had served the minimum period of time to qualify for pension.

In one of these cases a medical release was recommended although in the opinion of the Medical Board the serviceman did not require hospitalization or active therapy in the immediate foreseeable future. Another serviceman was overweight, a condition that existed on enrolment, and presumably lacked motivation to regain normal fitness. Another instance concerns an airman who was determined to leave the service on the completion of his current engagement in order to return to school. He had indicated his intention not to re-engage, but was granted a medical release apparently to prevent a possible re-engagement. The fourth case deals with a medical release following a long period of domestic trouble and eventual psychological disturbance. At the time of his release the serviceman was not incapacitated and the Audit office view is that he was actually released "to promote economy and efficiency".

In considering this matter, the Public Accounts Committee noted that the Department is endeavouring to achieve a system under which the entitlements to all pensions would be specific. If this were possible, it would eliminate the considerations of the Pension Board which is now responsible for establishing reasons for release. The Committee in its Sixth Report 1964 has asked to be kept informed of any action taken to revise the present system (see Appendix 1, item 29).

Mr. HENDERSON: Paragraph 65 on the next page, "discretionary awards of service pensions", is based on the fact that we have had occasion to be critical of the considerations or the criteria employed by the service pension board when it

is establishing reasons for release, and makes what are known as discretionary awards of service pensions.

You will see from this paragraph that we continue to note cases similar to those of other years. Reference is made in the second paragraph to four cases where servicemen were given full annuities on being retired compulsorily for reasons of medical unfitness, although the information on the files indicated that the reason given for retirement was of secondary importance to other reasons.

While we are dealing with this, you might like to look at paragraph 85 of the 1965 report, where we carry on with the same subject with more examples.

85. *Discretionary awards of Service pensions.* In our Reports for 1963 and 1964 (paragraph 65) we noted that in determining pension awards every possible consideration is given to the welfare of the individual serviceman, and that it is sometimes questionable whether a reasonable balance is struck between fairness to the serviceman on the one hand and economy of public funds on the other. In the year under review similar cases were noted as follows:

1. In three instances servicemen with slightly more than the minimum period of service were awarded full pensions, being retired as medically unfit. Information on file indicated that this reason was of secondary importance and that, had the primary reasons been recognized, contributions amounting to some \$11,000 would have been repaid instead of annuities having a present value of about \$85,000 being awarded. In addition, each of the servicemen received the special benefit paid to members released because of integration of the Forces. Pending release, the servicemen attended extensive courses in electronic data processing and programming and retired to continue in that field of employment in the public service and in industry. In each case the new employment was begun on the first day of terminal leave which was approximately three months before release date. Had the servicemen been granted voluntary releases, they would have received a return of pension contributions as noted above, with no entitlement to the special benefit.
2. Four servicemen were awarded full pensions, having been retired compulsorily as medically unfit, with annuities having a present value of \$129,000 and special benefits amounting to \$14,260. The first, a serviceman 32 years of age with 13 years service, over-weight for four years, presumably was unable to regain normal fitness. In the second case, although the Service medical consultant did not consider that the officer's condition warranted a release on medical grounds, he felt that departure from the Service to satisfy his desire to return to farming together with adjustment of his marital problems would bring rapid improvement. In the third case, the serviceman did not require hospitalization and active therapy and it would appear that the reason for the termination of engagement was unsatisfactory service. The fourth serviceman, aged 26 years, was released as disabled after serving ten years although the real reason appeared to be that he was not advantageously employable due to restricted learning ability and a desire to be released to accept civilian employment.

3. Two servicemen of equivalent rank with comparable service and military records were retired with materially different benefits. In one case, an airman was recommended for release on medical grounds in spite of the fact that a personal assessment report at the same time recommended his promotion. He was awarded benefits having a present value of \$22,000. In the other case, a leading seaman was considered disabled by the medical authorities, but the Service Pension Board determined release to be voluntary and he was given a return of contributions of \$2,060.

The Department is endeavouring to achieve a system under which the entitlement to all pensions will be specific. If this were possible it would eliminate the considerations of the Pension Board which is now responsible for establishing reasons for release. However, no action has yet been taken to revise the present system as recommended by the Public Accounts Committee (see Appendix 1, item 21).

The CHAIRMAN: Now, how would it be if we discussed it now and then we will not discuss paragraph 85 when we are dealing with the 1965 report?

Mr. HENDERSON: I would just conclude, Mr Chairman, by saying that I have been trying to find out what the department was doing about this. The Minister of National Defence wrote to me, on March 5, 1965, particularly on this paragraph, and he gave me precisely the same explanation I quoted to you in respect of the previous paragraphs.

The CHAIRMAN: Would there be any questions directed to Brigadier Lawson of the Pension Board at this time by the members of the Committee?

Mr. THOMAS (*Middlesex West*): Well, Mr. Chairman, I just wanted to ask this question first: I would like to know whether or not the department is making any progress in this direction, and, in addition, to make the point that I think the pension should be specific. I do not think the matter of conduct should interfere with a man's pension. I think that should be a matter of legal right and I do not think conduct should enter into it. If you serve so many years you should be entitled to a certain pension.

I think they have had the same trouble in industry, of pensions being contingent on good conduct, such as a man taking part in no strikes, and this sort of thing and, in the end it comes back to haunt them. They make one mistake and they do themselves out of a pension for life.

I would rather see all pensions put on a legal basis and have nothing to do with conduct. If a man is guilty of misconduct and he is let out of his job, I think he should take the pension to which he has contributed and to which he is qualified, up to that time.

Mr. BIGG: While we are making suggestions to the Pension Board for improvement, there are certain rather strange anomalies in the Pension Act concerning the mounted police and the armed forces.

If you served in the mounted police, then went overseas in the army on active service, and returned to the mounted police after the war you would get entirely different treatment than if you did the reverse. If you left the army in 1939 and went into the mounted police and then went back into the army after the war, you would get a full pension, but not the other way around.

It is a very peculiar anomaly that one should suffer for going into active service. I would suggest that there be preferential treatment for active service, but, as a matter of fact, this is not the case. There have been some adjustments made to this but they are not retroactive. Therefore, in some cases, some people are getting double the pension that other people are receiving for exactly the same service, and in my opinion, for less meritorious service.

That is quite apart from the point, also, that I think all pensions should be based to some extent, on the cost of living. Men who retired from the Mounted Police, say, in 1910, are getting along on perhaps \$40 a month. The man with the same amount of service today may get \$400 a month. It does not add up.

If this is a review of efforts to integrate all pensions from the Crown with the Canada Pension Plan, I think some of these anomalies could well be looked into right now and straighten the whole thing up across the board.

The CHAIRMAN: Mr. Lawson, do you have a brief observation you would like to make on this point?

Mr. LAWSON: I have no observation to make, Mr. Chairman, on the suggestion that pensions should be increased to tie in with the cost of living, desirable as that suggestion might be.

On the other point, it is unfortunate; we make amendments from time to time but we cannot make them retroactive. There must be a cut-off date somewhere, and it is unfortunate that some people do not get the benefit of the amendments where others do. But this I think, is inevitable in all legislation.

Mr. BIGG: I think as legislators we could take a very hard look at this situation.

The CHAIRMAN: Mr. Bigg, I think the veterans committee will handle this case of pensions do you not think?

Mr. HENDERSON: Again, Mr. Chairman, this was a case where the committee took note, two years ago, that the Department of National Defence was making this study in an endeavour to achieve a system under which the entitlement to all pensions would be specific which, if this were possible, would eliminate the considerations of the Pension Board which is now responsible for establishing reasons for release. It requested me to advise it in due course of any action taken to revise the present system. I therefore take it you would wish to have me continue to follow this and to keep the House advised.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, we did not get an answer to the question of whether or not the department were making progress in this direction and, if so, what progress they were making.

Mr. ARMSTRONG: Well, on this subject, the comments that I made before really apply. We had proceeded with a study to see what administrative system we could introduce that would eliminate the necessity for the Pension Board reviewing the cases, and in effect, determining the reason for retirement.

Now, this is obviously affected by the nature itself of your pension plan. When it became evident that we would have to review the whole of the pension plan after we had determined what changes, if any, were desirable in the personnel planning arrangements, following integration, we stopped the study there. We will take it up again when we look at the whole picture.

Mr. THOMAS (*Middlesex West*): In connection with pensions, could we ask if the Deputy Minister has any comments to make on the desirability of retaining the provisions concerning conduct or misconduct?

Mr. ARMSTRONG: Well, I do not really have any comment on this. There are quite a number of considerations that enter into it. I have a personal sympathy with the kind of statement you made, that a pension ought not be related to conduct, but I think there are other factors which have to be taken into account, from a disciplinary point of view. If any change were made in this, I think it would have to be a change that applies across the board, not only to military forces, but in all of the pension plans applying to the public service.

Mr. MUIR (*Lisgar*): I was just wondering if the service pension board have some criteria that they apply to all cases across the board. Or do you look into each case on its own merit?

Mr. LAWSON: Mr. Chairman, we examine some 6,500 cases a year. Most of these cases fall into clear cut categories and require very little attention. But each case that is not in one of those very clear cut categories, is looked at separately. We have certain well established principles that we apply in all cases, but there are always difficult borderline cases, of course. It is inevitable.

Mr. THOMAS (*Middlesex West*): Does the Advocate General feel that tying pensions to conduct is a desirable feature?

Mr. LAWSON: The only thing I can say in answer to that, Mr. Chairman, is that I am also Judge Advocate General as well as chairman of the Pension Board, and I think I can say, in all fairness, that we have the best disciplined armed forces of any country in the world. I feel that provisions of our Pension Act do have a real bearing on the very high standard of discipline we are able to maintain.

Mr. BIGG: On this point, Mr. Chairman, I hesitate to say that it was because of any punitive part of the pension scheme. I think it is because Canadians, generally, have in their character a very high standard of public service and also because the punitive part of any pension plan lands very heavily on dependents.

There are very few soldiers who worry too much about their own security, even in later life. But, when it affects the pension rights of their widows and families, about the only thing you could say that prevents them from suicide is because they have to stick around and make sure their dependents are not deserted. Many times I am afraid, in the armed services, a man's own character perhaps suffers somewhat, due to his service, and dependents who have stayed with him throughout his 20 or 25 years of active life are very, very seriously affected when he is cut off from pension rights.

If there is going to be an amendment at all, I would certainly say that a man's widow or his children should not be affected by any faults of his. This may sound very gallant, but that is my opinion.

Mr. LAWSON: On that point, Mr. Chairman, may I point out that the pensions of widows and children are not affected by these punitive provisions, they get the full pension to which they would have been entitled.

Mr. McLEAN (*Charlotte*): Yes, but they are not entitled to it. All my cases must be borderline cases.

The CHAIRMAN: I think you have sympathy in that respect, Mr. McLean.

Mr. NOBLE: Mr. Chairman, would not these be rare exceptions? You would not have too many cases where you would have to apply regulations in respect of conduct?

Mr. LAWSON: Oh, these are exceptions. Yes; they are quite rare, very rare indeed. This happens only when a man is discharged for misconduct after he really misconducts himself, or when he is inefficient and does not try to do a job. These are exceptions.

The CHAIRMAN: Paragraph No. 66. Mr. Lefebvre, just before you leave, I will say that we will cover about two more then we will recess and meet at 3.30 or after orders of the day, so that we can attempt to complete with the Department of National Defence.

All right; paragraph No. 66.

66. *Questionable pensionable service.* Under section 5 (b) (ii) of the Canadian Forces Superannuation Act, British Service members who, after a career in that Service, transfer to the Canadian Forces are permitted, on payment of contributions, to count full-time war and peace service in the United Kingdom Forces as pensionable on retirement from the Canadian Forces.

It is the practice to allow such members to include in their pensionable service time served as "boy" (under 18 years of age) in the United Kingdom Forces, although this type of service is not pensionable under British Service rules. In 11 of some 24 instances noted in the audit, pensionable service was increased by at least three years and the resulting pensions were materially increased as a consequence of including "boy" service.

Mr. HENDERSON: Here we can take paragraph 66 of the 1964 report and also paragraph 86 of my 1965 report, and dispose of them both.

86. *Questionable period of service included when determining pension benefit.* During the year six cases were noted in which officers and men released on pension had been credited with service dating in one case from the age of nine and in five other cases from ages eleven and twelve.

File documentation in respect of the early service was fragmentary, statutory declarations being accepted. In response to an Audit Office query about the officer whose service began at age nine, departmental officers replied that while enlistment at this age was contrary to regulations, the officer had not been discharged as being under age and consequently they were satisfied that he had served. In addition, they noted that the review board had agreed that the time claimed was in fact valid and since the officer had elected to contribute to the Canadian Forces Superannuation Account he was eligible to count the service as pensionable.

In our opinion the acceptance of such service for pension purposes is unrealistic and an abuse of the pension privilege.

In paragraph 66 we explain the practices that have been followed, of allowing members who transferred to the Canadian forces from the United Kingdom forces to include in their pensionable service, time served as a "boy", that is under 18 years of age, although this type of service is not pensionable under British service rules.

In paragraph 86 of the 1965 report, that is the paragraph in which six cases are mentioned where officers and men released on pension had been credited with pensionable service dating, in one case, from the age of nine and in five other cases from the ages of eleven and twelve.

Members of the Committee may recall that these cases were discussed some months ago in the House, at which time the Minister of National Defence, when he was confirming the correctness of the facts I had given, provided the names of the pensioners concerned. As both are in a rather similar category, I thought you might want to consider them together.

Mr. McLEAN (*Charlotte*): Mr. Chairman, I would just like to say that I served in the armed forces when I was 11 and 12 years old.

Mr. BIGG: It is my understanding that the militia service is counted for at half rate. I do not know whether or not this is true, but I know that when we were in the cadets at school, this was considered militia service and, in some cases, it was continuous on into the armed forces. It is the only way that I can explain this. Perhaps there is another explanation for it.

Mr. ARMSTRONG: Half the militia service is counted, under the Pension Act which applied up until, I think, 1946 or 1947. Under the present act—the Canadian Forces Superannuation Act—one quarter of the time is counted.

Mr. BIGG: There was a provision, though, that employed service was—

Mr. ARMSTRONG: Cadet service time is not counted, only militia service.

Mr. MUIR (*Lisgar*): Mr. Chairman, were these service personnel able to prove to the satisfaction of the pension board that they had served from the age of nine?

Mr. ARMSTRONG: I think I might ask the Judge Advocate General to give you the evidence that was available. They certainly did satisfy us that they in fact served, and that, of course, entitled them to count the service.

Mr. LAWSON: In all these cases, Mr. Chairman, I have looked into the evidence available and in each case mentioned by the Auditor General there is what I considered to be ample, and very clear evidence that these men did serve during the time they claimed.

The evidence is largely from the records of the militia units of which they claimed to have served, or if these records were not available, we have statutory declarations from at least two officers of the unit. In every case, we have that type of evidence.

Mr. BIGG: At the age of nine? How could you serve at the age of nine?

Mr. LAWSON: Well, at the time in question, 13 was the minimum age, but once a man gets in and he serves, that service counts under the act. If you look

at the terms of the act, you will see that there is no way we could exclude that service. The fact that he was under age does not exclude him counting that time.

Mr. BIGG: Oh, this is a case of a large boy of nine claiming he was 13, is it?

Mr. LAWSON: In that particular case, yes.

Mr. BIGG: Oh, I see.

Mr. NOBLE: Might I ask what would be the duties of a boy of 13 in the army?

Mr. LAWSON: Well, of course, this is not so today. I am speaking, now, of the period before the war.

Mr. NOBLE: But even at that time.

Mr. LAWSON: A drummer boy, buglers, signallers, and so on.

Mr. NOBLE: Oh, I see.

Mr. BIGG: A drummer boy in the militia?

The CHAIRMAN: I think probably he is right.

Mr. BIGG: I was in at the age of eight, myself.

The CHAIRMAN: There is a difference of opinion here between the Judge Advocate General's report and what Mr. Henderson has said.

Mr. HENDERSON: I should like to comment on what the Judge Advocate General has said. The file documentation, as is stated in the note, was fragmentary, and that is doubtless why statutory declarations were accepted that they had indeed served from age nine. I do not think that the department was able to establish that they had in fact served. They accepted the statutory declarations. Is that not correct?

Mr. LAWSON: It is true, Mr. Chairman. What happened at the beginning of the war was that when these militia regiments were mobilized, it was a mad rush and many records were lost and there just are no records available. If there were records available, of course we would go to those records, but in cases where there are no records, then we will accept a statutory declaration by the man himself plus a declaration from the commanding officer of the unit, if he is still available—not dead. If he is not available then we require a statutory declaration from at least two officers of the unit who were serving at that time, and who are prepared to swear that the man did serve.

Mr. BIGG: I can state from personal experience that it is possible that a child of eight or nine can serve with a militia unit, because I did so myself in Prince Albert, with the Prince Albert volunteers. It is too far back now to remember distinctly, but we took some of our codes as boy signallers.

Mr. ARMSTRONG: I gather that the Judge Advocate General gave you the actual documentation on which, in some of these cases, the service was accepted. I imagine you have it there.

The CHAIRMAN: The one with respect to the boy who was nine? Is that the one that you are most interested in?

Mr. LAWSON: I have them all here but I do not have the ages. Oh, yes, regarding Wing Commander Taylor; I will just read the statement I have here, Mr. Chairman, if I may. It reads as follows:

With regard to the N.P.A.M. service from July 8, 1927 to June 14, 1937, the R.C.A.F. pension section attempted from 1944 to 1949 to obtain verification of the service in question, and, after the best evidence which could be procured was obtained the matter was referred to the Judge Advocate General for an opinion as to whether the statutory declaration submitted by Wing Commander Taylor, together with supporting declaration by Mr. Blower, formerly a major and company commander of the Battleford Light Infantry, and well acquainted with the Taylor family, constituted sufficient proof of the N.P.A.M. service for pension purposes. Both these statutory declarations are on file and attest the fact that Wing Commander Taylor enlisted in the Battleford Light Infantry in June 1927 as a bugler.

Wing Commander Taylor's statutory declaration states that he obtained a discharge certificate from the Battleford Light Infantry for the purpose of enlisting in the R.C.A.F. in June 1937, but that this certificate has since been lost.

Mr. Blower's statutory declaration states he was company commander of the Battleford Light Infantry at the camp in Prince Albert, Saskatchewan, and that Walter G. Taylor was present during the full period, from July 8, 1927 and, to the best of his knowledge and belief, Taylor was a member of the same unit until he was discharged in June 1937.

The Judge Advocate General expressed the opinion that the above statutory declarations could be accepted as evidence of service if there were no other departmental documents proving the same and, as a result, this service was included in the pensionable term.

Mr. BIGG: I only have one more observation to make and that is, I do know there were times when most units were paid according to the number of men on the payroll. They had a certain mess allowance and goodness knows what. It may well have been the practice to enlist boys, well knowing them to be under age, in order to keep up these rolls. But, to include this type of "Boy" service is, I think, really stretching the Pension Act and the concept of pensions.

Although I am not criticizing the acceptance of this statutory regulation, I certainly think that we should be very alert not to have horses on the payroll or boys attached to units merely for accounting purposes.

Mr. LAWSON: May I say, Mr. Chairman, that today, of course, the minimum enlistment age is 16 and that we do require birth certificates. In the old days birth certificates were not always available and certainly a different policy was in force.

Mr. BALLARD: Mr. Chairman, I would like to ask Brigadier Lawson if that statutory declaration was taken for the purpose of determining the pension status or was it taken for the purpose of establishing the amount of service.

Mr. LAWSON: It is taken to prove the service but, of course, this has a major effect on the pension status.

Mr. BALLARD: I think at one time, long service medals, for example, were granted as a result of so much service in the N.P.A.M. plus active service and some members of the service would obtain statutory declarations for this purpose. I was wondering if this particular one was initially obtained for the purpose of long service or was it obtained after the application for pension was made?

Mr. LAWSON: No; this would have been taken long before he became pensionable. This is elective service. When he elected, he would elect to count this service and, at that time we would try to obtain proof of the service so that his file would be complete, with the proof of service on it. This would be long before his retirement to pension, of course.

Mr. BIGG: I think that I would just like to add this; I am not against the principle of paying boys for their actual service, regardless of how young they were, providing they did it because, in both World War I and World War II, many teenage boys lied about their age. I would not have this technical fault negated by their active service overseas so we do not want to be too rigid in this matter and say we are going to stop a man's pension because he was not in fact of the legitimate age of 16 or 18.

The CHAIRMAN: Any further questions? One item and then we will recess.

Paragraph 92 which is on page 50. This has to do with "Unpaid accounts carried forward to a new fiscal year." The first item has to do with the Department of National Defence.

92. *Unpaid accounts carried forward to new fiscal year.* Four instances were noted in which appropriations for 1963-64 were insufficient to meet accounts coming in course of payment in that year. In each instance Parliament had been asked for supplementary appropriations and these were granted by means of Supplementary Estimates (E)—the final supplementary estimates of the year. However, the appropriations requested were substantially less than the amounts required for payment of the accounts coming in course of payment at the end of the year. The departments concerned are:

1. DEPARTMENT OF NATIONAL DEFENCE.—Included in the 1963-64 Supplementary Estimates (E) was an amount of \$13,653,000 (Vote 35e) for Operation and Maintenance, Royal Canadian Air Force. This amount was substantially short of the amount actually required and accounts amounting to more than \$12 million had to be carried forward and paid out of funds appropriated for the year 1964-65.
2. DEPARTMENT OF MINES AND TECHNICAL SURVEYS (Dominion Coal Board).—Although the 1963-64 Supplementary Estimates (E) included an additional amount of \$3,914,600 (Vote 140e) for payments in connection with movements of coal, this proved to be substantially short of the amount required to meet claims that came in course of payment to the close of the fiscal year. The result was that claims amounting to \$2,380,000 had to be carried forward to the fiscal year 1964-65.
3. DEPARTMENT OF FINANCE.—The 1963-64 Supplementary Estimates (E) included an additional amount of \$2,800,000 (Vote 45e) for payment of municipal grants. This amount was insufficient

to cover the remaining grants which were approved for payment in the fiscal year 1963-64 and grants totalling \$806,503 had to be carried forward for payment in 1964-65.

4. DEPARTMENT OF NATIONAL HEALTH AND WELFARE.—Included in the 1963-64 Supplementary Estimates (E) was an amount of \$2,000,000 (Vote 25e) for the payment of hospital construction grants to the Provinces and Territories. This amount was insufficient to meet the remaining claims in the year under review, and claims totalling \$458,000 had to be carried forward and paid out of funds appropriated for the year 1964-65.

Another charge properly applicable to the fiscal year under review but which has been carried forward as part of the current assets item "Departmental working capital advances and revolving funds" is a balance of \$2,555,000, included in "Agricultural Commodities Stabilization Account" balance of \$63,954,000 (see paragraph 97). This is the amount by which the \$122,235,000 provided by Appropriation Act, No. 2, 1964, Department of Agriculture Vote 172e, the final supplementary estimates of the year, fell short of meeting the loss of \$124,790,000 (exclusive of administrative costs and the estimated cost of major services provided without charge by government departments) experienced by the Agricultural Stabilization Board during the year under review (see also paragraph 163).

Mr. HENDERSON: Mr. Chairman, the unpaid accounts carried forward to new fiscal years is a standard paragraph in each report so we might also deal with paragraph 92(1) of the 1964 report and paragraph 140 in the 1965 report.

140. *Unpaid accounts carried forward to new fiscal year.* Appropriations for the Department of National Defence for 1964-65 were insufficient to provide for all accounts coming due for payment in the course of the year, and accounts totalling \$7,308,000 were held over to be paid out of 1965-66 funds, as follows:

Vote 15 Royal Canadian Navy	\$ 1,932,000
Vote 20 Canadian Army	493,000
Vote 25 Royal Canadian Air Force	4,694,000
Vote 35 Defence Research and Development	189,000
	<hr/>
	\$ 7,308,000

Supplementary Estimates (D)—the final supplementary estimates of the year—included an amount of \$7 million for the Canadian Army which was not quite sufficient to cover all outstanding accounts. No final supplementary estimates were requested for the other Services.

Funds provided by Vote 15 of the Department of Citizenship and Immigration for administration and operation of the Indian Affairs Branch were insufficient for payment of all accounts of the year, and accounts totalling \$1,080,000 were held over for payment in 1965-66. No supplementary estimate was requested.

Another charge applicable to the year but which has been carried forward as part of the current assets item "Departmental working capital

advances and revolving funds" is an amount of \$1,318,000, included in the balance of \$23,152,000 in the "Agricultural Commodities Stabilization Account" (see paragraph 171). This is the amount by which the \$57,118,000 provided by Appropriation Act No. 2, 1965, Department of Agriculture Vote 80d, the final Supplementary Estimates of the year, fell short of meeting the balance of the loss of \$2,555,000 brought forward from the previous year and the loss of \$55,881,000 (exclusive of the estimated cost of major services provided without charge by government departments) experienced by the Agricultural Stabilization Board during the year (see also paragraph 213).

Both these paragraphs contain items related to the Department of National Defence. You will see that in 1964 the item constitutes one of the four cases noted, in which appropriations for that year were insufficient to meet amounts coming in course of payment in that year.

Here we explain how an amount of \$13,653,000 was included in the 1963-64 supplementary estimates (E) for operation and maintenance of the Royal Canadian Air Force. This amount was substantially short of the amount actually required and accounts amounting to more than \$12 million had to be carried forward and paid out of funds appropriated for the next year.

Again, in 1965, in paragraph 140, there are appropriations to the Department of National Defence which were insufficient to provide for all accounts coming due for payment in the course of the year and you will see that accounts totalling \$7,308,000 were held over to be paid out of the next year's funds.

You did discuss these two paragraphs in relation to other cases on May 12, and there were some considerations given to the difficulties which can be incurred when estimating requirements of this size over a long period of time, and it certainly would have been a factor in these cases. Nevertheless, as was pointed out then, the incurring of such obligations is the equivalent of overspending of appropriations and therefore cannot be lightly dismissed.

You will recall that I was away during the period of that discussion, but I have been most interested to note that the question was asked in the Committee, on May 12, whether it would not be informative to members of Parliament and the public, if in the Public Accounts of Canada there were included a listing by departments and appropriations of all amounts remaining unpaid at the year's end for any reason whatsoever.

I think both Mr. Muir and Mr. Thomas endorsed this idea. The Chairman said that he thought this was a point well taken and that it might become a recommendation of the Committee. It seems to me that this could be very readily done, and it might be a very desirable procedure to follow.

The CHAIRMAN: Mr. Armstrong, you have heard this remark. We had a little discussion on this. It could be a question of underestimating or overspending. Maybe you would like to enlarge on this.

Mr. ARMSTRONG: Well, Mr. Chairman, in the Department of National Defence, of course, our obligations always exceed by a very large amount, our actual cash appropriations from year to year because we must obligate on contracts over a longer period of time.

Obviously it is undesirable to have unpaid accounts at the end of the year, but occasionally we simply do not have our estimates so accurate. I suppose the one way we can ensure overcoming this would be to have a margin in the cash estimate, beyond which we think we are absolutely safe. It is very difficult to ensure absolute precision in these accounts.

Mr. BIGG: I do not know the history of this type of overexpenditure but if unexpected expenditures, such as snow removal in March, keep recurring, I wonder if the department could not budget for 13 appropriations instead of 12 so that at the year's end when this type of overexpenditure or underpayment occurs, we could at least keep our books straight by keeping some kind of reserve fund on hand for this type of emergency.

Mr. ARMSTRONG: Well, if I may say so, what we have at this present moment, of course, is a consolidation of votes. For information, the votes are broken down by the same kind of detail but the actual appropriation is a single appropriation for the defence forces.

For example, in 1963-64, while these accounts went unpaid in one vote, we lapsed funds of about \$34 million in other votes. Now, as it stands, we could simply transfer the money and pay these accounts, then we would not have unpaid bills.

Mr. BIGG: It is not then liable to recur after a few years?

Mr. ARMSTRONG: Under the present system, it is most unlikely to happen.

Mr. BALLARD: At that time, though, the votes were not transferable?

Mr. ARMSTRONG: No; these were separate votes.

The CHAIRMAN: Do I understand that in 1963-64 the amount of \$12 million was for several accounts? Accounts amounting to more than \$12 million had to be carried forward and paid out of funds appropriated for the year 1964-65. Was that \$12 million for several accounts or was it for this particular one of operation and maintenance, Royal Canadian Air Force?

Mr. ARMSTRONG: It would be several accounts, but under the operations and maintenance vote. If you mean individual accounts, yes.

Mr. MUIR (*Lisgar*): Mr. Chairman, I think there is every reason to believe that you probably underestimate the first estimate, although I always thought the departments overestimated, but this clearly shows that you have not. But, in a supplementary estimate where it comes in later in the year, surely the department should have been able to bring their figures up to the point where they can fairly well estimate it almost to the dollar.

The CHAIRMAN: I think you are thinking the same as I am; why was there not a supplementary estimate to take care of this.

Mr. MUIR (*Lisgar*): That is right.

Mr. ARMSTRONG: Well, there was a supplementary estimate, but unfortunately it was not enough.

The CHAIRMAN: A misplacement.

Mr. ARMSTRONG: That is right.

Mr. BIGG: Could we have a little breakdown on what type of item this is? Is it snow removal and that type of thing, or not? Something unpredictable?

Mr. ARMSTRONG: Well, this unfortunately just gives list of primaries which is not very helpful to you, but it covers a tremendous number of items.

Mr. BIGG: Are they very large items, like a million dollars?

Mr. ARMSTRONG: Well, let us see, the largest item is a million dollars in the primary 44 which covers the operation of various contractual agreements such as the Mid Canada Line, for example, which is operated under contract. And there is a whole series of these things. From this statement, I cannot tell you the items precisely.

Mr. BIGG: Being under contract, you would think these would be the very ones on which an accurate estimate could be made.

The CHAIRMAN: Gentlemen, it is time to adjourn. This is a complicated subject. How would it be if Mr. Armstrong made a list of these things to satisfy the Committee? We could question this item the first thing after dinner. Maybe he could break them down so we could see why you missed out on those.

The meeting will be recessed until after Orders of the Day, when we will hope to conclude with the Department of National Defence. The meeting will be resumed in Room No. 209 across the way.

AFTERNOON SITTING

(Recorded by Electronic Apparatus)

MONDAY, June 9, 1966.

● (3.30 p.m.)

The CHAIRMAN: Well, gentlemen, we will come to order. I know there are others on their way. We recessed at noon hour. Mr. Armstrong agreed to bring to the Committee's attention some of those amounts that appeared in Item No. 1 which made it necessary for the department to have unpaid bills at the end of the year, and also fail to submit them in supplementary estimates. Mr. Armstrong, would you give us some of the larger items that make up this amount of \$12,000,000?

Mr. ARMSTRONG: Mr. Chairman, referring to the 1963-64 Report.

The CHAIRMAN: Gentlemen, we are on page 50 of the 1964 Report, page 50, Item 1.

1. DEPARTMENT OF NATIONAL DEFENCE.—Included in the 1963-64 Supplementary Estimates (E) was an amount of \$13,653,000 (Vote 35e) for Operation and Maintenance, Royal Canadian Air Force. This amount was substantially short of the amount actually required and accounts amounting to more than \$12 million had to be carried forward and paid out of funds appropriated for the year 1964-65.

Mr. ARSMTRONG: The situation in these circumstances is simply that when the funds are exhausted the Treasury, of course, are simply unable to pay any further accounts against the 1963-64 year. Therefore, the amount of money

involved covers a very wide range of items. For the information of the Committee I could, perhaps, give you some idea by running down the list.

Salaries and wages, \$105,819, Travel expenses, \$147,375, Telephones, telegrams and other communications services, \$402,831; Municipal and public utility services, \$442,200; operation of establishments and provision of facilities by contract, \$1,088,687; fuel for heating, cooking, power generating units, \$446,-343; gasoline, oil and lubricants, \$858,934; maintenance of spare parts for aircraft and engines, \$520,857; spare parts for electronic and communication equipment \$384,265; repair, overhaul and modification and conversion of equipment \$6,-499,199.

Does that give you an idea? This covers really a whole range of the kind of expenditures and charge for this group.

The CHAIRMAN: Thank you, Mr. Armstrong. Are there any questions? If not, I have one. Mr. Winch?

Mr. WINCH: Well it seems that telephones and heating should be something which could be very readily estimated?

Mr. ARMSTRONG: Well, as I am explaining, what happens here is that when we run out of money—we underestimated what we needed by the \$12 million or whatever the figure was here—we simply then stop paying accounts. So those accounts remain unpaid and are charged to the new year.

Mr. BIGG: So you knew what you were going to have to pay, say, for the telephone; you knew it was going to be around \$400,000 but you just did not have the money to cover it at all.

Mr. ARMSTRONG: If you do not have the money bills are not paid.

Mr. TARDIF: Do you mean that \$12 million was underestimated?

Mr. ARMSTRONG: Yes, that was the figure. That, incidentally, is a relatively small percentage of the bulk. I think it would run about 2 per cent.

The CHAIRMAN: Mr. Tardif, just to bring you up to date, when we recessed at noon, the Committee asked Mr. Armstrong to give us the larger items that would be made up of this \$12 million of which they underestimated and, following Mr. Bigg's question, all those first items are usual run-of-the-mill items and it would not be unusual to estimate them very closely, I would think. This one for repairs and modification of \$6 million can you elaborate on that, because that is a tremendous amount of money, and you must have known that repairs or modifications were coming up and how is it that there was a big one of \$6 million.

Mr. ARMSTRONG: Well, this particular item covers the overhaul of aircraft and other equipment. Total expenditures in that area probably would have run, I think in 1963-64, in the area of \$100 million. I have not got the figures before me, but they are very large. As I say, I think it is a little difficult in this particular area, to say that the underestimate was in relation to this, at it turned out to be the figure for bills that were not paid.

The CHAIRMAN: Why was not a big amount like this in your supplementary estimates?

Mr. ARMSTRONG: Well, I think it is a little hard to say. It was simply an underestimate of what we needed, that is all.

The CHAIRMAN: Even in the supplementary?

Mr. ARMSTRONG: We went for a supplementary estimate, as I recall, of \$12 million or \$13 million. Yes, we got this supplementary estimate of \$13,653,000 and in the final analysis it has turned out to be short by \$11,700,000.

Mr. MUIR (*Lisgar*): Mr. Chairman, that was the point I was trying to make this morning, that the underestimate was in the supplementary, and that that is a 50 per cent underestimate. It may be 2 per cent of the total estimate but when the supplementaries come in later—

Mr. TARDIF: Do I understand there are \$13,653,000 of supplementaries plus the \$12 million or is that \$12 million part of the \$13,653,000?

The CHAIRMAN: Mr. Long, would you like to speak to this?

Mr. G. R. LONG (*Assistant Auditor General*): The \$13 million was in the final supplementary estimates of the year. Looking at it now, that should have been \$25 million.

Mr. TARDIF: It is a little confusing because, in the report, it would seem that the \$12 million was part of the \$13,653,000 whereas it is, in fact, an addition to it. It is actually \$25 million which should have been asked for in the supplementary estimates.

(microphone dead—sound cut)

Mr. LEFEBVRE: I think the deputy minister's reply to Mr. Tardif was 2 per cent. I think you meant around 50 per cent, did you not?

Mr. ARMSTRONG: No, the reference was to the total vote, not to the supplementary estimate. The vote for operations and maintenance for the R.C.A.F. This was a supplementary estimate of \$13 million for the original vote.

Mr. TARDIF: Is not the supplementary estimate a review of the need for a year? Would you have \$12 million and just not know it at that time?

Mr. ARMSTRONG: The final supplementary estimate is normally calculated about February and it is a review, yes, there is no question about that. One would expect it to be known. I am not suggesting one should know it. We, for some reason or other, did not calculate it correctly.

Mr. BIGG: While we are still on this point Mr. Chairman, I understand that part of this is going to be rather embarrassing to the department. It will be taken up by the question of allowing a spill over from other unused budgetary estimates. I think there is some danger here, perhaps; the idea, I think, of all budgets is to make any department go carefully in its internal housekeeping.

Mr. ARMSTRONG: In a sense, I suppose our problem was we were probably being too cautious here, in our internal housekeeping. We could have sought more money and been less cautious. Now, we were being very cautious and we did not seek enough money and, consequently, there were unpaid bills at the end of the year.

Mr. TARDIF: Does the Department of National Defence ever ask for more money?—(sound cut)—Does that ever happen?

Mr. ARMSTRONG: In this particular year, in other votes we lapsed \$34 million so that our total expenditures on defence in this year, although we needed a supplementary estimate in this particular vote, were less than we actually provided for in the main estimate.

Mr. TARDIF: Then there was some money, of the original estimate, that was not spent.

Mr. ARMSTRONG: That is right.

Mr. TARDIF: And the supplementary estimate was necessary because it had to be earmarked for something?

Mr. ARMSTRONG: Because it was required in a particular vote. We were not legally in a position to use the money in other votes to cover this particular vote. As you know you cannot transfer between parliamentary votes.

The CHAIRMAN: Shall we pass on?

Mr. BIGG: I am not quite finished either. I am a little bit worried that perhaps we have used what you might say a gimmick in order to do something which was actually illegal. If you overspend one estimate which is earmarked and also has the additional safeguard of having the supplementary estimates to cover it and then you still overspend, and make it up out of the general pot, I think that this makes for bad general housekeeping.

Mr. ARMSTRONG: Perhaps I should explain further. There certainly would be nothing illegal about anything we do in this respect, but when we proceeded with the integration of the headquarters we then began to move the three services together in a great many areas. Heretofore, we have accounted parliamentary votes by service, showing an operating vote and a capital vote for each service. This was not practical when we changed over and, consequently, we moved into a single vote for the service as a whole. But, for information of the House, we continued, for the time being, to break it down by service. We will, I expect, in another year, change that to a more informative breakdown than we have now. But this is a transitional period.

Mr. TARDIF: Gentlemen, this is a peculiar case. Would it be much trouble to add that the department, of its original estimates, had not spent so many dollars, because otherwise this would lead you to believe that the department spent \$25 million more than they originally expected. We were told that the main estimates were not all spent that year.

Mr. LONG: I do not think that it was meant to be inferred that the main estimates were not all spent. These are the air force estimates which we are talking about. There were amounts which lapsed, I believe, in army and navy. In those days there were separate appropriations. As a matter of fact, there were two appropriations, I think, for each service. The subcommittee of the Public Accounts Committee considered last year, a new form of estimates, and now there is only one estimate for the three services. Therefore, before there will be an amount unpaid, all money for all services will have to be exhausted at the year end.

In our paragraph 51 in our 1965 report we mention how this revised vote pattern was applied. Actually, it was varied slightly from what the subcommittee recommended. But this is what Mr. Armstrong means when Mr. Bigg is

concerned about having something to put in here. It means that the three appropriations will be in one part. You therefore have less chance of having an overspending of money.

The CHAIRMAN: I think the committee would be very happy if, at the end of the year, not only national defence, but all departments, made a list of unpaid accounts, to appear in the public accounts book in each department. This would overcome the whole problem.

Mr. TARDIF: Do you mean unpaid accounts or unspent amounts?

The CHAIRMAN: Unpaid accounts. Would this involve much work, Mr. Henderson?

Mr. HENDERSON: It would not overcome the problem exactly, Mr. Chairman, but such a disclosure would act as a good break, and should not involve very much work. The figures are known, anyway. They could just be put in and go in the public accounts and when you look at a department you see them. If that compounds itself to you, it could be the subject of a recommendation.

The CHAIRMAN: We will make a note of that and discuss it later. Just one other question. Concerning repairs and maintenance, if you did not have the money set aside to do them, is there any possibility of putting off this work until more estimates are made?

Mr. ARMSTRONG: Well you see, what happens here is that these are all fairly long-term contracts. We have to plan these a long time in advance and our problem, in terms of the year to year cash, is to make an estimate of how many of the bills come due in that particular period. It is conceivable that one can go wrong. It is obviously a disadvantage to the department not to pay \$11 million worth of bills because we have to charge them to the next year and save it somewhere else.

Mr. BIGG: Mr. Chairman, I think I have had some of my alarm allayed here. I thought, when you said "telephone account \$400,000", that this was an underestimate of your telephone account and not that the whole telephone account had remained unpaid, because there was an over-all discrepancy of 2 per cent in your whole expenditure. I thought you meant that when you ran out of money the whole telephone account was left unpaid, and it looks enormous. Actually, you have only overspent your telephone account 2 per cent which in this case would be a few thousand dollars rather than \$400,000.

Mr. ARMSTRONG: It represented a fairly small proportion of that communications account, which covers a lot of fairly expensive communications.

● (4:00 p.m.)

The CHAIRMAN: I do not want to cut you off on anything, but we have a lot of work here to do. Page 168 of 1964, and we are on the non-productive items, number 2.

2. EXPENDITURES ON HOUSING PROJECTS SUBSEQUENTLY ABANDONED.—In 1961 the Treasury Board approved in principle a proposal to enter into a bulk leasing arrangement with a contractor for the provision and operation of 50 housing units for occupancy by married Army personnel at Carp, Ont. The location was subsequently changed to Almonte, Ont. Treasury Board authority was sought to pay a utility allowance of \$20 per month to each of the eventual tenants. How-

ever, the Board did not approve this proposal and in May 1963 the project was abandoned. In the meantime, \$12,391 had been expended for purchase of land and \$6,627 for costs of survey, soil investigations, and services and heating design. The land in question has since been turned over to Central Mortgage and Housing Corporation for disposal.

Similar authority was obtained in 1961 for 15 rental housing units at Perth, Ont. The necessary land was purchased at a cost of \$7,432. Subsequently, when it developed that no acceptable proposal from entrepreneurs could be obtained except at rentals above those for accommodation already available in the area, the project was abandoned. Additional costs relating to site survey, consultant services and plans amounting to \$381 were also absorbed. Central Mortgage and Housing Corporation has been asked to dispose of the land.

In 1962 the Treasury Board approved in principle a proposal to proceed with the development of a rental housing project of 80 units on a bulk lease basis at Red Deer, Alta., for occupancy by Army personnel. In 1963 the project was abandoned. However, expenditure had been incurred for a land option, site survey and design of services amounting to \$10,257.

Mr. HENDERSON: Item 2 has to do with expenditures on housing projects and this note, as you see, recites three leasing arrangements planned in Carp, Ontario, Perth, Ontario, and Red Deer, Alberta. In the case of the first two, something like \$27,000 was spent for the purchase of land and on surveys, soil investigations, and so on. After they were abandoned, the land was turned over, in both cases, to Central Mortgage for disposal.

The third case in Red Deer, however, a similar project of 80 units, was abandoned a year after it was started. The expenditure incurred for a land option, site survey and design of services amounted to something over \$10,000. That is the third case, Mr. Chairman. Now if the members have any questions?

The CHAIRMAN: Are there any questions from the members?

Mr. TARDIF: Are the reasons given for abandoning this project?

Mr. HENDERSON: Non-productive expenditure.

Mr. TARDIF: No, but are the reasons not given?

Mr. ARMSTRONG: The reasons for abandoning the project at Perth and at Almonte were that when we sought proposals and ascertained the rents that would be chargeable on the best kind of arrangement we could make, we came to the conclusion it would not be an advantageous proposition and, consequently, we dropped the two projects. C.M.H.C. act as our agents in this respect, both in acquiring the land and disposing of it, and they have been asked to dispose of it. They have not yet disposed of it but, in due course, they will do so and, I would hope, recover a good part of this cost.

Mr. TARDIF: Was it not possible, at the start, to realize this would not be the proper place for a housing project; before the expenditure was made?

Mr. ARMSTRONG: It was not so much the question of price, it was the question of how much rent would have to be paid.

Mr. TARDIF: Do you not figure how much rent there is going to be in revenue before the project is decided?

Mr. ARMSTRONG: We estimated what we expected to get in the way of rent before we decided, yes. This turned out to be higher than we expected.

I should mention that with regard to Red Deer, the reason was different. Housing at an air force station at Penhold became available and it was not necessary to proceed with the planned housing project at Red Deer.

The CHAIRMAN: Number 3.

3. ADDITIONAL COST DUE TO FAULTY SPECIFICATIONS AND DRAWINGS.—In April 1957 a contract for the production in Canada of 7,500 signal flares for the Royal Canadian Air Force at a firm price of \$54,304 was awarded by the Department of Defence Production.

Subsequent to the start of production, the contractor and the R.C.A.F. design authority began to find inaccuracies and conflicts in the drawings and specifications and as production progressed some 24 design changes were required. Later it was determined that the drawings and specifications which had originated in the United States had never been used for production.

The cumulative effect of the design changes increased the cost and extended the period of production during which the product became obsolete for operational use.

In May 1963 the contract was terminated by reducing the quantity from 7,500 to 4,920 flares. The cost of the numerous design changes with attendant delays resulted in payment to the contractor of \$28,868 more than the initial firm price for \$7,500 flares.

Mr. HENDERSON: This is a case where, after the start of production, inaccuracies and conflicts showed up in the drawings and specifications, to the point where some 24 design changes were required. The cumulative cost of all these resulted in the payment of over \$28,000 having to be made to the contractor in excess of the initial firm price which had been established for the order in the first place.

Mr. TARDIF: Mr. Chairman, may I again ask and I will probably get the same answer: What happened to the individual responsible for having drawn up improper specifications and drawings?

Mr. ARMSTRONG: No individual drew up improper specifications or drawings.

Mr. TARDIF: There must have been somebody, Mr. Chairman, in that department who was responsible. Let us say there were 15 draftsmen, then there must be a chief of that department.

Mr. ARMSTRONG: In this particular case the signal flares, of this type, had been bought in the United States, where they were made. The Department of Defence Production thought it would be advisable to endeavour to establish a Canadian source. The Department of National Defence asked the U.S. Navy, for those specifications. They had the specifications for the production of the article we had been getting prior to that, and the contract was let on the basis of those specifications.

Now, the problem really arises out of changes that were necessary to adjust to the Canadian components and Canadian manufacturing methods in this particular area, and this gave rise, as the Auditor General has pointed out, to very considerable difficulties and, in fact, a really satisfactory flare was never produced. The 4,920 flares that were produced were used. In the meantime, before the contract was completed, a simpler and better flare became available and the contract was cancelled. But, essentially, it was the effort to establish a Canadian manufacturing source which gave rise to the problems.

Mr. TARDIF: Can another price asked for in these particular cases be dealt with by the Department of Defence Production?

Mr. ARMSTRONG: I beg your pardon?

Mr. TARDIF: The prices, for instance, or the policy you wish to establish as a source of supply for this type of material in Canada, is that done by the Department of Defence Production?

Mr. ARMSTRONG: Yes.

Mr. TARDIF: Why is it then, Mr. Chairman, that they are not always consistent? I know of four or five cases where orders from Defence Production for the armed services, were given to other countries, either the United States or England, at an increased cost of about 8 per cent, 9 per cent or 10 per cent, thereby forcing local manufacturers in Canada to discontinue production.

The CHAIRMAN: I think the question before the Committee and what we would like to know, Mr. Armstrong, is why were not all these particulars assimilated, then co-ordinated, and then a decision made on whether it would be better to buy in the United States or Canada, what kind of a flare to buy, and then proceed to buy them. But it would appear, from your explanation, that you made up your mind to buy some flares and went off at different tangents; then you found you were on the wrong track and that you had cost the Canadian taxpayer \$28,000 for changing your mind. Now, this is the sort of thing the Committee wants to know.

Mr. ARMSTRONG: Mr. Chairman, the flare we were buying was the same flare we had bought before, as I say, from a U.S. source. Defence Production, of course, had bought through that source. The decision was not to change the flares—it was the same flare—but to produce it in Canada.

The CHAIRMAN: Well then, why was this not decided before you bought them?

Mr. ARMSTRONG: Why was not—which?

The CHAIRMAN: Why did you not decide in the first place where you were going to buy them—either in Canada or the United States?

Mr. ARMSTRONG: Well, the decision was to make them in Canada.

Mr. HENDERSON: Well, Mr. Chairman, we might be able to throw some light on this. I have here the submission to the Treasury Board covering the payment requested to the company domiciled in Canada which manufactured the flares. It states, among other things, that it was discovered that the drawings and specifications of United States origin have never even been used in production, that there had been extensive revision in the United States along the same lines

as that represented by the foregoing 24 design changes. The cumulative effect of all the changes had increased the cost by the figure indicated, of \$28,000, and extended the time of production to such an extent that the product had become obsolescent to the R.C.A.F.

The notes we have on this state that some of the material specified in this United States Navy drawing had ceased to be available as much as 13 years prior to this date, so that, the specifications might have been pretty ancient.

Mr. ARMSTRONG: So far as we in the Department of National Defence are concerned, we are not responsible for the placing of the contract. We are responsible for placing the order, and for stating what we want. We were satisfied with the flares we were getting.

In the course of this contract which ran from 1957 until, I think, 1961 or 1962, it is true that another flare was produced and became available which was a better flare than this one, and a less expensive one. In fact the Department of National Defence, as early as 1960, because of the very considerable difficulties in this contract in getting satisfactory production, suggested that we cancel the whole thing. But there was the desire to get some suitable production going in Canada and it was continued for a little while longer.

Mr. TARDIF: Mr. Chairman, did I hear correctly, then, that some of the components of this particular flare had not been available for 13 years? Did I hear that correctly?

Mr. HENDERSON: It seems that part of the drawings had ceased to be available for as long as 13 years before.

Mr. TARDIF: Was the head of the department who decided to make the changes on these flares a member of the armed services or was he a civilian?

Mr. HENDERSON: I think, as Mr. Armstrong said, it would be the Department of Defence Production, would that not be right?

Mr. ARMSTRONG: He did not decide to make any changes. When it was decided to manufacture this in Canada, we did not have a specification for the flare. We got this from the United States Navy, who were the service in the United States who had this specification, which they had been using, and we used that specification.

The CHAIRMAN: Now, here is the point. In this specification you got from the United States, were there items specified in there that had been out of use or unavailable for the last 13 years?

Mr. ARMSTRONG: Well that I do not know, quite frankly. I see the Auditor General says that, from the report.

Mr. TARDIF: Mr. Chairman, is it possible to find who was responsible for suggesting that the changes be made in this? Somebody must have been responsible for having done that.

Mr. ARMSTRONG: I do not know what you mean by this, but as the production got started the contractor himself asked for changes, and one would—perhaps,—expect this to happen—to fit in with his Canadian components, materials and manufacturing processes.

Mr. TARDIF: I know that I am being repetitious and I know I will probably end up by not getting the answer, anyhow, but what I would like to know is if somebody said "yes, do change"; even if the contractor suggested that in order to make this in Canada it would be necessary to make this and that change. Somebody had to say "yes we will." I would like to know who said that. I would also like to know what the status of this particular individual was at that time; I would like to know what his status is now.

Mr. ARMSTRONG: I really cannot answer that offhand. I know that at least two of the people involved in this have since retired because of this, but I could not tell you more, specifically in answer to your question, without checking it further.

The CHAIRMAN: Just before I ask Mr. Bigg, have you anyone here from the Department of Defence Production?

Mr. ARMSTRONG: I do not have anyone from the Department of Defence Production, no.

Mr. BIGG: Do I understand that the R.C.A.F. are in close co-operation with these people and that from time to time they send these flares out for test purposes, and so forth, and when they find them not operational they come back with suggested changes; is that sound?

Mr. ARMSTRONG: Yes, these are inspected.

Mr. BIGG: They are tried out periodically.

Mr. ARMSTRONG: In May 1960, after this contract had proceeded for a little while, our inspection services in the Department of National Defence, because of the problems associated with getting an unsatisfactory article, suggested the best thing to do was to cancel the contract. But, as I say, in order to try a little harder to get this Canadian production going, it was not cancelled at this time, and it went on until the latter part of 1961.

Mr. BIGG: I do not know how complicated these flares are, but most army flares are not an extremely complicated machine. Were these people who said they could produce this flare not capable of producing what you might say almost any flare without tremendous added expense? Or did they have to retool? \$28,000 is a considerable expenditure for minor changes of shape, colour, et cetera.

Mr. ARMSTRONG: I do not know how much of the contract was involved in assessing tools. I do not have that breakdown. I do have a 1961 figure showing an increase, of \$21,000 in the contract, based on the rise in labour costs. You see, the contract went over a long period of time. By that time it had been going for four years and, because of increased labour costs during that period, there was an increase in the contract of \$21,000.

Mr. BIGG: This \$21,000 is a very large percentage of \$28,000 and it seems to me that what we are getting here is a little double talk; that these design changes were not, then, the major cause of it at all. It could be, perhaps, a question of this company having found out that, because of increased labour costs, they could not produce the flare for the contract price and so using this device of talking about changes in design they absorbed \$21,000 of labour costs.

Mr. ARMSTRONG: Well, you should appreciate the fact that the contract was eventually cancelled. So that it was awarded at \$54,000 and eventually increased by, I think, \$28,000. It was for 7,500 flares, but only about 5,000 were actually completed. I think we estimated that if we had completed the contract which, to us would not have made sense, it would have cost us \$95,000.

Mr. TARDIF: Just a short remark. I do not think this applies here, because it was definitely stated that this was a firm price. A firm price does not go up because of this or that reason.

The CHAIRMAN: Mr. Long, I think, might throw a little more light on this. Mr. McLean first, though.

Mr. McLEAN (*Charlotte*): On these original plans for the flares obtained from the United States Navy, there were 24 changes, did I understand, Mr. Henderson? Were the plans that we got, obtained after or before the 24 changes?

Mr. ARMSTRONG: We made the 24 changes.

Mr. HENDERSON: We have just been reading a little more closely the submission to the Treasury Board by the Department of Defence Production and there is another paragraph which I did not cover before, Mr. McLean. Will you just speak to that, Mr. Long?

Mr. LONG: Mr. Chairman, the trouble here was that they got hold of some plans that apparently would not produce what they wanted and it turned out that there had been changes in the United States but nothing from those plans had ever been produced before they brought them in.

The explanation to Treasury Board, I think, covers it quite clearly. These were not changes being suggested by the air force; these were changes being suggested by the contractor to try and produce what they wanted. So subsequent to the start of production the contractor and the design authority began to discover inaccuracies and conflicts within the stipulated design drawings and specifications, and corrective measures were instituted by design change procedure. These were minor in the beginning and were of such a nature that the contractor and the Royal Canadian Air Force were hopeful that a satisfactory product would be forthcoming. However, as the program progressed, problems became more serious and a total of 24 design changes were, in the end, required. The contractor did not request additional costs for each of these changes as they occurred, in the belief that each one was the last and that individually, they would not amount to too much.

The CHAIRMAN: Now Mr. McLean, you have some questions?

Mr. McLEAN (*Charlotte*): What I was trying to get at, is that when we got the original plans we proceeded on the original plans and there were already changes in those plans. Did we have the changes when we got the plans?

Mr. LONG: It is stated here that subsequently it was discovered that the drawings and specifications of United States origin had never been used for production; that there had been extensive revision, in the United States, along the same lines as that represented by the foregoing 24 design changes. They had the same trouble with them but apparently had not solved the problems.

Mr. McLEAN (*Charlotte*): How could we get the original flare and use it, if it had never been produced in the United States?

Mr. LONG: That is a good question.

The CHAIRMAN: There are a lot of questions to be answered on this one, I think. We will hear from Mr. Armstrong meanwhile, but I think we will have to have the Department of Defence Production here before we can settle this. There are other items where the Department of Defence Production will be required and we may defer these until Mr. Armstrong brings a Defence Production official with him at our next meeting.

Mr. MUIR (*Lisgar*): Mr. Chairman, I would think, from the look of this, that actually they were trying to produce an experimental model. The American navy had never used the drawings because, subsequently, they too had to re-design. I think the fault lies with the person who was sold the bill of goods by the navy in the first place, and then had to pay for the experimenting to make it work.

The CHAIRMAN: In other words, why did we not benefit by their mistakes.

Mr. TARDIF: Mr. Chairman, the \$21,000 is not what is worrying me, particularly, as I fully realize that the Auditor General cannot look at every item in every department; he must pick one here and there. But how many items are there, in the same class as this one, that are not reported to by the Auditor General, and how much does that come to, in dollars and cents?

The CHAIRMAN: Well, Mr. Armstrong, do you want to proceed further, or would you rather wait until you have a Department of Defence Production representative here?

Mr. ARMSTRONG: Well, I do not think I can add very much to what I have said. I think there is some obvious difference of view between technical experts in this field. Our own technical experts were of the opinion, first of all, that the specification that was received from the U.S. Navy was the specification that we had, on which flares we had got earlier in the 1950s, I think about 1952, had been the basis of their manufacture. After this affair had gone on, they were themselves of the opinion—that is our own technical people—that had these specifications been rigidly adhered to throughout, they probably would have produced a satisfactory flare. But there are a variety of complicated reasons why they were not adhered to.

The CHAIRMAN: Well, I think we had better leave it at this point. It has not been proven to the Committee that the department was at fault here. We will leave it at that.

Mr. ARMSTRONG: Mr. Chairman, would you wish me to get in touch with Department of Defence Production or do you wish to do that?

The CHAIRMAN: Well, we would like somebody from the department because there are going to be some other matters coming up here. You would know best, I think, who would come from that department. You are dealing with them all the time.

Mr. ARMSTRONG: I would be glad to do it if you would like me to, so long as I understand that that is what you expect.

Mr. TARDIF: Would it not be less embarrassing to Mr. Armstrong if the request came from the Committee to the Department of Defence Production?

The CHAIRMAN: We will likely send it to the deputy minister. Thank you, Mr. Tardif.

Well, then, we will skip number 4 and go on to number 5 which has to do with the defence construction.

5. ADDITIONAL COSTS DUE TO CONSTRUCTION DELAYS, OTTAWA.—In July 1961 Defence Construction (1951) Limited awarded a firm price contract in the amount of \$179,000, later amended to \$194,312, for the construction of a biological evaluation building for the Defence Research Board at Shirley Bay. The contract was to be completed by the end of November 1961. However, the building was not taken over until May 1962.

During the course of the contract, the work was delayed mainly because of (a) a temporary lack of electrical power, (b) experiments with specified materials which proved to be unsatisfactory, (c) the requirement for all shop drawings to be handled twice, once by Defence Construction (1951) Limited engineering services and once by the consultant, and (d) certain design changes made during the progress of the work. The contractor claimed for additional costs incurred as a result of the above delays and was paid \$8,042 in March 1964.

Mr. HENDERSON: Number 5 has to do with construction delays in Ottawa and here it is recited how \$8,042 was paid to the contractor for additional costs involved in the construction of the biological evaluation building for Defence Research Board at Shirley Bay.

The CHAIRMAN: Any questions from the Committee?

Mr. TARDIF: Well, Mr. Chairman, the same questions apply to this as apply to many of the other items that were drawn to our attention by the Auditor General; experimenting with specified material. Who does the experimenting? Who takes the responsibility that we should do some experimenting?

I think, in cases like this, Mr. Chairman, it would be wise to put the contractor's name, so that we know who did it, because there are some contractors in this town and all over Canada who have a faculty for finding out what would result in extras or what has been forgotten by the architect, or by the engineer on some of these jobs. Some of them are pretty smart and some of them do that regularly. So the original quotation by some of these firms is never realistic.

Mr. HENDERSON: Well, Mr. Tardif, I am in the hands of the Committee. They have specified that non-productive expenses be listed. If you want names added, that is fine. But I have never placed names in my report.

Mr. TARDIF: I do not think it is necessary to do it, but sometimes I would be curious to know. This original contract of \$179,000, before it gets started apparently it is \$194,312, and it is stated in your report there, and I am sure it is right, that there was experimenting with specified materials which eventually proved to be unsatisfactory. The architect or engineer on this job who is

responsible for drawing up specifications, if he wants to experiment, should not experiment at the cost of the taxpayers of Canada.

The CHAIRMAN: Mr. Tardif, how would you like to follow your questioning by directing to Mr. Bland, president of Defence Construction (1951) Limited, these items listed (a) a temporary lack of electrical power, and so on and have Mr. Bland explain to us why this lack of power, and whose responsibility it was, and cover each of those (a), (b), (c) and (d) in that order.

Mr. Bland, number (a).

Mr. HENDERSON: Perhaps Mr. Bland would give you the name of the contractor, if you still wish it. We have it here.

The CHAIRMAN: All right, the name of the contractor.

Mr. A. G. BLAND (*President and General Manager, Defence Construction (1951) Limited*): The contractor's name is L. D. Zuccarini Ltd.—Landino Zuccarini, an Italian Canadian.

Mr. TARDIF: I do not really care what his status is. I know some contractors who have the faculty of finding extras and I was wondering whether he was one of them. This new Canadian I do not know.

The CHAIRMAN: Regarding the lack of electrical power, Mr. Bland, whose responsibility would this be?

Mr. BLAND: All these things we paid for would, in our view, be the responsibility of the Crown. What happened with respect to the lack of electrical power was that there was a fire in a substation of the Defence Research Board facility at Shirley Bay. The electrical subcontractor had installed a breaker which was used as a replacement for one destroyed in the fire in order to maintain services for the buildings at Shirley Bay. The replacement for the breaker, the borrowed breaker, was two months in being delivered and, as a result the heavy mechanical installations in the building were unable to be tested by the contractor and the work was delayed. We assessed the cost of the delay to the contractor at, in round figures, \$1,800, and he was paid this amount under item (a).

Mr. TARDIF: Did this happen after the job was started?

Mr. BLAND: Yes.

The CHAIRMAN: Was the fire in a Crown-owned building?

Mr. BLAND: Yes, therefore there would be no insurance to cover it.

The CHAIRMAN: No. (b) experiments with specified materials which proved to be unsatisfactory.

Mr. BLAND: Well, (b), this building is a laboratory for experimenting with small animals used by the Defence Research Board. There was a requirement for a plastic wall coating in some of the rooms of the building. This is an unusual requirement and a product called Situflex or an equal, was specified. The contractor applied through the proper channels for an equivalent certificate covering a product called Ev-roc. The specification required that these be applied and the tests be run and that the tests be accepted. Our engineer ruled that the tests should be run before the product was applied, which I think was a

reasonable thing, and there was some considerable testing before a product was found that would meet the requirements of the Defence Research Board. During this period, a portion of the building was held up and we paid for this delay. A product was found, which was a modification of the Ev-roc product.

The CHAIRMAN: Who specified this material; did your officials in your department draw up the specification?

Mr. BLAND: This job was designed by a consulting engineer under the briefing of the department's engineers.

The CHAIRMAN: And the persons who specified the materials, did they not find out whether or not these materials are available and suitable before you proceed with the building?

● (4.30 p.m.)

Mr. BLAND: I would have to speculate on this but I would suspect that they would do research on the type of material that the Defence Research Board finds it wanted and would assume, from the trade literature that was available on the Situflex material, that it was the appropriate material. It was found in fact, under experiment, not to be absolutely appropriate.

The CHAIRMAN: Would we be unfair in saying that your department did not work closely enough with your consultant and were lax in checking the specified materials?

Mr. ARMSTRONG: I think, if I understand this rightly, that concerning the material that was specified, the contractor sought the "or equal" clause for substitute material, is this right? And there is an equivalent standards board for this purpose that examines the material and either agrees that it may be substituted or not, and I take it, in this case, the equivalent standards board regarded the material as being equivalent but, in the subsequent testing, it was found to be not entirely satisfactory.

The CHAIRMAN: Should not all of this have been done before the building was started?

Mr. BLAND: I think that is a fair observation. I think it is also recognized that in the building industry tests are not run on every material for every application before the building is constructed.

Mr. TARDIF: Mr. Chairman, the responsibility for proving that the material that is going to be the equivalent is up to the specification, is the responsibility of the supplier, not the responsibility of the department, and if the supplier cannot convince the board responsible for making the final decision that his material is equal to or can do the job, normally he is the fellow who loses.

The CHAIRMAN: In other words the Committee feels that (b) did not constitute grounds on which the contractor should have been awarded extra money. Are we fair?

Mr. McLEAN (*Charlotte*): How much did it amount to for this particular item?

Mr. BLAND: It was \$1,600 in round figures.

Mr. McLEAN (*Charlotte*): The manufacturer might not be willing to go ahead and approve that material for just \$1,600 for a particular purpose.

The CHAIRMAN: I think principle, though, Mr. McLean, appears so many times in these specifications and it is always the Crown that pays the bill in the end. I think it is the Committee's responsibility to try and see if specifications, and of the right kind, called for by departments are available on the market and that all this is arranged before the building is commenced. This is only a small amount, I agree, it is only \$1,600. But the principle keeps appearing from one place to another, in our report.

Mr. McLEAN (*Charlotte*): Mr. Chairman, but the department engineer will not accept the material.

Mr. BLAND: I just want to say that I do not believe it would be equitable to hold the contractor responsible for the cost of the delay which arose out of this experimentation. I think it is fair to say that a product, in fact, had to be developed to meet the requirements of the scientists and it is perhaps fair to say that a product did not exist on the market that would meet their requirements. Certainly the product proposed and approved by the department on the basis of material given by the supplier, did not meet the requirements of the scientists.

Mr. TARDIF: What, Mr. Chairman, were the requirements of the scientists? Did they require something that was not actually necessary?

Mr. BLAND: I could not comment on that.

Mr. ARMSTRONG: The problem, without being able to comment on it in detail, was to get a surface that was satisfactory in terms of minimizing biological contamination because of the work that was being done in that building, and it required a rather special material for this purpose.

Mr. BIGG: Well, as I understand it, the contractor wanted to substitute, probably to get a cheaper material in order to keep within his contract, and he used the facilities of the Defence Research Board to assist him in this. And then he claimed that because they were slow, they held him up on putting in material on the job. Is that correct?

Mr. ARMSTRONG: I do not think one can come to that conclusion because, as I say, in these construction projects materials are specified very often as a particular trade material. In order to provide for competition and for other suppliers to supply their materials, there is always an "or equivalent" clause so that the contractor or supplier can submit his material to be given an equivalent standing. It is then examined and if it is regarded as being equivalent it is designated as having an equivalent standard and may be used.

Mr. BIGG: Well, as I was saying, had the contractor gone ahead and supplied the original material, there would have been no delay. If he had just said, "Well, I will put in that rather extensive wall cover," or whatever it is, there would have been no delay, but he thought that he could materially reduce the cost of putting on this equipment and he allowed the Defence Research Board to do the experimenting with acids and so forth, for animal excreta and so on, and turn up with a negative result until the building was held up.

Mr. BLAND: The fact is that when his substitute was tested and found not adequate, he then supplied the originally specified material for testing and it, too, was found inadequate.

Mr. BIGG: It was found inadequate too?

Mr. BLAND: Correct. Then there was a special material developed for this particular application.

Mr. BIGG: You mean it was in the original specifications and not on behalf of the contract?

Mr. BLAND: It was in the original, it was in the approval of the equivalent, which went through a recognized departmental channel. It was in the departmental approval of the equivalent that the contractor proposed.

The CHAIRMAN: Well, I think we come back to the point that Defence Construction are responsible to see that the specifications are right before you proceed with the job. We have heard the evidence on both sides. We will proceed with the next one.

And now (c) the requirement for all shop drawings to be handled twice, once by Defence Construction (1951) Limited engineering services and once by the consultant. Now, why was this necessary? I think we should have the name of the consultant who drew these plans, too.

Mr. BLAND: I would have to get that, I do not have it available.

Mr. TARDIF: We would also, Mr. Chairman, have to know whether some authority in the department told the consultant "I do not want it this way, you change it." When somebody does that, then, of course, the consultant is not going to pay for it.

The CHAIRMAN: Well, we will deal with the shop drawings, Mr. Bland.

Mr. BLAND: We have the name of the consultants if you wish them.

Mr. HENDERSON: Our note here indicates all shop drawings for this complex structure had to be approved by the consultants, Creaghan Archibald. This involved double handling of the drawings by DCL engineering services and the consultants. This delayed work two weeks.

Mr. ARMSTRONG: Not a very long delay.

Mr. BLAND: Mr. Chairman, what happened in this respect was that our engineers and technicians were under a very heavy load of shop drawing submissions from construction across the country during this particular summer. We had two possible solutions; one was to attempt to engage additional staff to handle this; the other was to farm the work out to consultants.

In this case a decision was made to have the consultants do the shop drawing checking, but this was done after the job was under way and there were some drawings that were processed to us and then to the consultant, because the new arrangement had not been commenced from the initiation of the job.

The CHAIRMAN: Do I understand you had a consultant for the whole job and then you had a subconsultant for the shop drawings?

Mr. BLAND: No, one and the same. But we normally handle the checking of straightforward shop drawings ourselves.

Mr. BIGG: Was there only one copy of these drawings, was that the problem?

Mr. BLAND: No. The problem was that we probably had, during this particular construction season, many thousands of submissions for approval and these are done by a group in our head office in Ottawa. We attempted to hire people, we could not get adequate talent to handle this load. We therefore farmed some of it out to consultants and chose this path for this particular contract.

I am not happy with the manner in which they were handled and we accepted the fact that we had delayed the contractor because of the delay in approving of some essential shop drawings.

The CHAIRMAN: Any questions on that part? As there are no questions we will go on with (d), certain design changes made during the progress of the work. Mr. Bland, why were these necessary? They were required?

Mr. TARDIF: Were the designs asked for or requested by the scientists? Was that plan not submitted to the scientists before the building commenced, in the process of planning or preparing this building? Are those plans not submitted to these scientists that are going to work in it eventually?

Mr. BLAND: Correct.

Mr. TARDIF: Do you mean, then, that this is a change of mind after they had been shown the plans and had been consulted about it?

Mr. BLAND: That is correct.

Mr. BIGG: Was there a change of personnel amongst the scientists? Perhaps that had something to do with it

Mr. BLAND: I cannot answer that, although sometimes in seeing something in fact, rather than on plans, it presses home that it is not satisfactory. I could not say whether or not some developments, technologically, promoted some of the changes.

The CHAIRMAN: Is everyone satisfied? All right. Number 6. Defence Construction.

6. ADDITIONAL COSTS DUE TO DELAYS IN CONSTRUCTION OF HANGARS AT GREENWOOD, N.S. AND SUMMERSIDE, P.E.I.—Contracts were awarded to the same construction firm by Defence Production (1951) Limited in February and March 1959 to construct one anti-corrosion hangar and one readiness hangar at RCAF Station, Greenwood, N.S., and a standard maritime readiness hangar and standard maritime anti-corrosion hangar, at RCAF Station, Summerside, P.E.I., at firm prices as amended of \$837,839 and \$829,000 respectively.

Immediately after the award of contracts, a number of modifications to the structural steel design were proposed by the steel fabricator. These modifications which were finally accepted required lengthy consideration. As a result, the first submission of erection diagrams, scheduled for approval by March 20, 1959, was not made until April 10, 1959. The manner in which shop drawings were dealt with by the contractor, Defence Construction (1951) Limited, and the consultant gave rise to further delays. As a result, final approval was not given to the steel fabricator until June 11, 1959. The commencement of the erection of the first hangar at Greenwood was

thus delayed two months. The second hangar at Greenwood and the two at Summerside were delayed up to three months because of the disruption of fabricating schedules. The contractor was forced into winter work and additional costs of \$36,733 and \$32,087 were claimed. The claims were negotiated and settlements of \$17,870 and \$15,360 were paid to the contractor.

Mr. HENDERSON: These additional costs arose where contractors were forced into winter work due to circumstances which they both claimed were beyond their control. They claimed in both cases some \$68,820 which, after negotiation, was settled for rather less than half or \$33,230. The details are given at the top of page 170, as you see.

The CHAIRMAN: This was caused by delays. Mr. Bland, could you give us a brief explanation of the delays; what caused them?

Mr. BLAND: Mr. Chairman, the delays were caused as a result of a serious question raised by the fabricator of the structural steel frame of these hangars. All four frames were identical for the four hangars involved in the two contracts, two each. The structural steel subcontractor in reviewing the plans and specifications and preparing fabrication drawings at that stage, had serious misgivings about some of the details of the design and he raised these with the designer. Now, in an attempt to be brief, the nub of the thing was that he raised the point and he had a right to a prompt reply.

The CHAIRMAN: Excuse me. Did he raise this before or after the contract had been awarded?

Mr. BLAND: After the contract was awarded.

The CHAIRMAN: After the contract was awarded.

Mr. BLAND: That is correct.

The CHAIRMAN: This is very important.

Mr. TARDIF: What worries me in this, Mr. Chairman, is that it was immediately after the award of the contract.

The CHAIRMAN: So he accepted the contract and you accepted to let it to him?

Mr. BLAND: Yes, that is correct. Bearing in mind that one does not produce fabrication drawings until one has the contract, and that in bidding the job, the man would take off the quantity of steel involved and estimate his cost from quantities, when he got into the detail layout and fabrication drawings he was disturbed about certain features of the design, and he made these points known to the designer and to the owner.

The CHAIRMAN: Before he accepted?

Mr. ARMSTRONG: Not before he accepted the contract, but after.

Mr. BLAND: No; immediately after.

The CHAIRMAN: Well, would it not be his responsibility? Why should the Crown pay him \$32,000 when he made the mistake and accepted the contract.

Mr. BLAND: I do not think he made a mistake. He proposed some changes which were ultimately settled and the department was faced with the situation where two professional opinions differed. It was quite a serious matter and the contractor's expertise indicated that they were not at all satisfied concerning the safety of the building if the original design was followed. Ultimately, it was agreed that the revisions would be accepted, but it was never proven to our satisfaction that the original design would not have worked. It was proven that there was a probable gain from the substitution, in terms of safety.

The CHAIRMAN: You did not obtain this professional advice beforehand. You had a difference of opinion of professional advice.

Mr. BLAND: We had a designer who designed the building and the contract was awarded on the basis of this design. When the structural steel subcontractor went into details he became concerned about certain features of the design. A discussion—a professional discussion if you like—ensued regarding the adequacy of the design and it was ultimately decided that the suggestions of the contractor's professionals should be followed. We did not conserve the decisions made, with adequate promptness. The contractor claimed this delay through the entire schedule behind, and forced him into the completion of the buildings under winter conditions.

The CHAIRMAN: Who would recommend this payment to Treasury Board?

Mr. BLAND: Defence Construction recommended it to Treasury Board and it was accepted.

The CHAIRMAN: You would have to recommend that yourself?

Mr. BLAND: That is correct.

Mr. TARDIF: Mr. Chairman, the original steelwork on that was designed, I presume, by a consultant engineer?

Mr. BLAND: Yes.

Mr. TARDIF: I also presume that he was paid full tariff for that. Was he also paid tariff on the extras?

Mr. BLAND: I would have to check that, Mr. Tardif.

Mr. TARDIF: I wish you would, because I am undecided whether I should make a doctor, an architect, or an engineer out of my son. With the information I have, so far, he is going to be an engineer because there he can get paid for mistakes.

Mr. BLAND: Yes, that is right.

The CHAIRMAN: Yes, Mr. Lefebvre?

Mr. LEFEBVRE: There is another phrase in there, on page 170 which says:

Further delays were caused by the manner in which shop drawings were dealt with by the contractor, Defence Construction (1951) Limited, and the consultant.

In what way did this manner differ from the usual manner and why was it different?

Mr. BLAND: The basic delay here was one in our own offices in which the drawings were not handled expeditiously; they were not directed to the consultant promptly on their receipt by us.

Mr. BIGG: Is this the same kind of a bottleneck as in the previous example?

Mr. BLAND: Correct.

Mr. LEFEBVRE: Has anything been done to change this bottleneck? Or is that occurring in other jobs also?

Mr. BLAND: We have not had the volume to contend with what we had in these particular years but we certainly have modified the system of handling shop drawings coming in and going out.

The CHAIRMAN: Can you not in the department protect yourself from these delays, if they are bound to happen with your contractors, and give yourself enough time or preparation of these drawings so that you do not get caught for these charges for delays?

Mr. BLAND: Mr. Chairman, I think that the preferable solution is to handle them expeditiously.

Mr. BIGG: They have not even got the staff. If there is an actual bottleneck and a number of people watching, we do not want carelessness in these defence contracts.

Mr. BLAND: It is a question of planning, and staff. We do have the ability to hire the staff if the staff is available on the market.

Mr. BALLARD: Mr. Chairman, I am not too concerned over the items that we have discussed here. As a matter of fact, I am quite satisfied with the explanations that have been given and I can quite see how they would arise in the normal course of construction.

The only thing that does concern me, though, is whether there is a tough enough stand taken by the department when they are negotiating settlements with the contractors. I think this is the key to the whole thing; the fact, for example, that drawings had to be remade or that a contractor suggested a change in structure. I think that these are things which we want to occur because it usually results in a better type of construction. What I am concerned about, however, is whether from the government's point of view or from Defence Construction's point of view the department is being tough enough to get the best type of settlement with a contractor that it is possible to get. I think the rest of it is quite normal.

Mr. TARDIF: Mr. Chairman, in this, as in many other cases we have reviewed before, there is a lack of planning, because everybody in Canada knows when we are going to have winter and approximately when it is going to start. Therefore, if a job is properly planned, we should not have to pay extra for winter work.

Mr. BLAND: Yes.

Mr. BALLARD: This is precisely the point. For example, we were talking a moment ago about design on steelwork. Now, there can quite easily be a difference of opinion between professional men on the type of design required in a building and it is also possible for a steel fabricator to be in a position to

give better advice on design than, say, two professional men and I think it can quite often result in a saving, it can quite often result in better construction, to get this information before construction starts.

The CHAIRMAN: Before the contract is let.

Mr. BALLARD: No, you cannot turn around then and blame an architect for drawing up an incorrect set of plans, because his plans are not incorrect. The new information quite often gives you a better set of plans than you had originally. Neither plan need be incorrect; one might be better than the other.

I think it is incumbent upon the Defence Construction people to test these things and come up with what they consider to be the best solution. If this does cost a little extra, well, it probably pays off in the long run. But again, we get back to the point, are they tough enough in making the best settlement they can with the contractor? I think that Mr. Bland should comment on this.

The CHAIRMAN: First we will have Mr. Tardif and then Mr. Bland.

Mr. TARDIF: Just to keep records straight, engineers consult regularly with steel fabricators before they make plans of this type. What normally happens in a case like this is that another steel fabricator, who wants to get his material used, will come to the contractor and say that with this design he can save so much money, and it will be just as strong. It very often happens like that, because the engineers consult with steel fabricators constantly. As a matter of fact most of the plans that are made for the steel set-up are made by steel fabricators, not by the engineers.

Mr. BLAND: I would like to deal with the point about the toughness of the company in negotiating with contractors in cases of extras. This, obviously, has to be a matter of judgment, but I think it is fair to say that our philosophy has been that we want to be fair and reasonable. That can include toughness, but it should not include an arbitrary approach.

We feel that if we demonstrate, and I think we have done this over the years, that we are prepared to listen to a reasonable case from the contractor and analyse it in depth and detail and treat him fairly, that the original bids to us for the department will not include contingencies to cover arbitrary decisions. Now, as I say, it is a matter of judgment, and of the fact that we are very conscious of the importance of our judgment being good. We have had some considerable experience in this. Mr. Tarif's points are well taken. Many steel designs are developed by fabricators. In this particular case, from my reading of the files, it is my belief that the point raised in connection with both designs being acceptable is a fair one, but that the design used was the best design under the circumstances.

Mr. MUIR (*Lisgar*): I would agree with that Mr. Bland, but I am wondering why perhaps this could not have been thrashed out before the building started. It is like a starting to build a \$20,000 house, and his wife coming along every second day and wanting it changed so that instead of it costing \$20,000 it costs \$30,000. I see not only—

Mr. TARDIF: If a man lets his wife do that, he deserves it. We will have to prevent the Department of National Defence or Defence Production from allowing wives loose around the place.

Mr. MUIR (*Lisgar*): What I see in the various departments that this Committee has before it is that this has become too much of a rule, the idea that we will go ahead with the building but we will make changes. We are learning that this is costing the taxpayer quite a lot of money. Although it does not seem to be much in each contract, added together it runs into millions of dollars.

The CHAIRMAN: I think, Mr. Muir, this will certainly be one of the recommendations of the Committee.

Number 7.

7. ADDITIONAL COSTS RESULTING FROM CONSTRUCTION DELAYS, NORTH BAY, ONT.—In 1959 a contract was awarded by Defence Construction (1951) Limited for the construction of a communications installation at North Bay, Ont. The final cost of the project, amounting to \$17,668,360, included \$149,883 paid to the contractor in the year under review in compensation for additional costs and interest arising from the prolongation of the contract and from carrying out the work as directed by the Crown. The prolongation of the work was primarily the result of (a) the time required to make a policy decision whether to cancel or complete the project, (b) the complexity of the project which caused difficulties in scheduling sub-contract work, and (c) delay in providing the contractor with working construction drawings.

Mr. HENDERSON: This contract involved the construction of the communications installation at North Bay and, as stated, its final cost included approximately \$150,000 paid to the contractor as compensation for additional costs and interest arising from the prolongation of the contract and from carrying out the work as directed by the Crown.

It will be seen that this arose largely because of (a) the time it took to reach a policy decision whether to cancel or to complete the project, (b) the complexity of the project which, in turn, caused difficulties in scheduling sub-contract work, and (c) delay on the part of the Crown in providing the contractor with working construction drawings.

The CHAIRMAN: Mr. Bland, would you take number (a) first and let the Committee know something about policy decision and what was the delay there.

Mr. ARMSTRONG: Perhaps I should deal with (a) the time required to make a policy decision whether to cancel or complete the project. This particular construction project was to develop a combat centre at North Bay. It was one of nine that were being built for the North American Air Defence Command. The other eight were in the United States and the original plan for the combat centre called for hardening the centre and also the computer—this was a highly computerized installation—would be transistorized.

The Canadian contract was drawn upon that basis and, subsequent to that, the United States, in re-assessing their requirements in this respect, decided not to go ahead with the transistorized computer installations—they were developing it—and consequently because the requirements for space became considerably different from a non-computerized one, they decided also to build them above ground and not to harden them. By this time, we had already dug the hole to put in the building we intended to construct and there a considerable period of

time was spent in resolving the question of whether it was advantageous to proceed with the installation underground and install the non-transistorized computer in it or to go ahead with an above ground installation. We finally concluded that it was, on the whole, cheaper to proceed with the installation because of the work that had already been done, but this did cause some delay in getting a policy decision on what course of action should be followed.

Mr. TARDIF: Mr. Chairman, if it requires a decision to find out whether a job should be cancelled or carried on with; it cannot be a very important project; if it does not appear to make any difference whether it is cancelled or completed.

Mr. ARMSTRONG: I think there is a misunderstanding there. I did not say a decision to cancel but a decision on what kind of a structure to provide. As I explained, we had started out with the expectation of having an underground facility in which a transistorized computer would be installed. This aspect of it, which was dependant on the United States, went by the boards. We then had to decide whether it would be wiser to complete the construction with the underground facility or to abandon the work we had then done and put in an above ground facility. That took some time to make a decision. It was not a question of cancelling the project.

Mr. TARDIF: Then the wording on this, or maybe I understand this improperly, I do not know, which reads: "the time required to make a policy decision whether to cancel or complete the project" means that the time spent in making decisions cost, on this particular contract, \$149,883.

● (5.00 p.m.)

Mr. HENDERSON: We might have said that the reason the work was delayed was because of four factors, (a), (b), (c) and (d); and they each required a policy decision.

Mr. TARDIF: On whether to cancel or continue the project.

Mr. HENDERSON: No, that was the nature of the policy decision they had to make, but it was the time it took them to make it that was one of the factors in the delay.

Mr. TARDIF: I am only going to say this and then I will stop, because I am not getting to first base, anyhow. If there was a reason for making a decision between cancelling or completing a project, then it cannot be all that important, because the wording in this particular clause of yours here, makes it evident that it could have been either cancelled or completed.

Mr. ARMSTRONG: I think this is probably a misunderstanding in words, if I may say so. It was not a question of cancelling the project, it was a question of whether the original contract and the underground facility would be cancelled and an above ground installation built.

Mr. TARDIF: Then that explains it.

Mr. ARMSTRONG: It is just a play on the word, I think.

Mr. BIGG: Then there were also delays in the stages of which this was being completed. You were awaiting policy decisions, both in the defence and international areas, on just exactly what the final project would be. Is that it?

Mr. ARMSTRONG: Well, there was a period of some uncertainty, particularly with regard to the question of proceeding with the transistorized computer, and so on. As you know, there were other developments at the time which were all reviewed and, consequently, there were a few delays involved in this.

The CHAIRMAN: Why did we not get the policy decision first before we decided to spend any money?

Mr. ARMSTRONG: Well, when we started on this, there was a policy decision. It was changed in the course of it.

Mr. LEFEBVRE: Because there was a new defence minister after 1958?

Mr. ARMSTRONG: This had nothing whatsoever to do with the defence minister.

Mr. LEFEBVRE: Well, where is policy decided?

Mr. ARMSTRONG: I am sorry, I do not seem to be making this clear. As I explained these centres were part of the North American Air Defence Command set-up. One of them was in Canada; eight of them were in the United States. The development of the equipment to be included in them was being done in the United States. The United States decided, during the course of this, after we had started our plans and let a contract for the underground facility, not to go ahead with that particular development. This, at the same time, resulted in their decision not to harden these in the United States, but to put them above ground.

Mr. TARDIF: What was their decision? What was that?

Mr. ARMSTRONG: Harden them. But had we not been where we were we, I am sure, would have done the same thing. But we already had a hole in the ground and were quite a considerable way towards putting this underground and we decided, after studying the matter, that it was more economical to go ahead with what we had already started than to change, at that point.

Mr. TARDIF: Is that, Mr. Chairman, what comes from not really providing the contractor with working drawings?

Mr. BLAND: I think it might clarify the situation, Mr. Chairman, if I explained that this facility was considered sufficiently urgent that it was constructed as drawings were prepared. The old style was the cost plus fixed fee approach. The cost plus fixed fee approach was not used on this job. A tender was called to create the hole in the ground. The cavern at North Bay. It was agreed, at that time, that that contractor—the mining contractor if you wish—would be the management contractor for the building and the trades. Over the months, design progressed in an organized fashion so that, when the excavation was coming to completion, the outline of the structure had been determined and steel was ordered. A structural steel fabrication contract was let. There were 19 separate subcontracts called by our company and assigned to the original prime contractor. This total cost aggregated over \$17 million. The \$150,000, if you will permit me to generalize, was payment for prolongations that arose out of what I feel was a modest lack of flow in this rather gigantic program, and I think was really a very small price to pay to get this job, when we got it.

Mr. MUIR (*Lisgar*): I was just wondering, now that we spent almost \$18 million on it, is it any use to us?

Mr. ARMSTRONG: Well, we are using it and we consider it a useful defence installation.

Mr. TARDIF: Was this a total Canadian expenditure or did the United States pay part of this?

Mr. ARMSTRONG: The \$18 million was a Canadian expenditure but there was a much larger companion American expenditure for the equipment in the structure in the facility.

The CHAIRMAN: I think you have answered the next one, the delay in providing the contractor with the working construction drawings. I presume that has been answered too, with the complexity, unless there are any other questions?

Mr. BIGG: Mr. Chairman with regard to all these non-productive items, it seems to me that most preparations for war could be called non-productive, in that sense. I think that perhaps we are only concerned here with unnecessary additional expenses which we did not foresee. Is that not correct?

Mr. HENDERSON: That depends on the Committee's definition of a non-productive expenditure, Mr. Bigg. If you can produce a better one than we have today, I would like to hear it.

The CHAIRMAN: Number 8.

8. CONSULTANTS' FEE IN RESPECT OF ABANDONED WORK, CAMP WAINWRIGHT, ALTA.—Defence Construction (1951) Limited entered into a contract in 1951 with a firm of consulting engineers for the preparation of contract drawings and specifications and for supervision of construction of water supply, sewerage system and additional services for Wainwright Military Camp. The construction work was planned in three stages. Stage I was completed and the consultant was paid for services rendered in accordance with the contract. Due to a change in military requirements Stages II and III were not proceeded with; however, certain work related to these stages had already been carried out by the consultants and in the year under review \$49,299 was paid in respect of this work.

Mr. BIGG: Only one definition seems to fit the whole problem.

Mr. TARDIF: This is different from most of the clauses that were drawn to our attention today. In most cases the contractor gets extra because the working drawings are not available. In this case, the engineer gets an extra because the working drawings were available.

The CHAIRMAN: Why did he get the money?

Mr. TARDIF: Well because he has it planned so much in advance that he insisted on getting paid \$49,299. This actually is the engineer, Mr. Chairman, whom we should hire for cases like the one which preceded this one, where we had to pay \$149,000 because the drawings were not ready. This fellow apparently had his drawings long ahead of time.

Mr. HENDERSON: I cannot dispute that. I think Mr. Armstrong or Mr. Bland can answer that one.

Mr. ARMSTRONG: We are dealing now with paragraph 8?

The CHAIRMAN: That is right.

Mr. HENDERSON: This was where Stages II and III were not proceeded with.

Mr. ARMSTRONG: This, I suppose, arises out of a decision by the department in 1951. It was planned, at the time of the Korean war, to expand the use of the Wainwright Military Camp and, in order to do this, it was necessary to provide additional water and sewage and other services. It was decided to do it in three stages, I, II and III. The design work was let for it and carried out and the man was paid. Then the department decided not to go further than they had in respect to the expansion of Wainwright. We have the plans but we have not used the ones for the second and third stages.

Mr. BIGG: I would understand this more readily, Mr. Chairman, if this was wartime, and plans were made to expand that camp and there was urgency for getting it done as soon as possible. But this was not wartime.

Mr. ARMSTRONG: It was.

Mr. BIGG: What—1951?

Mr. ARMSTRONG: The Korean war was on.

Mr. BIGG: Then the war folded up and so did their plans.

The CHAIRMAN: I think we should clear it up a little here. The contract was let in 1951 and this is coming to our attention in the Auditor General's report in 1964. I just cannot tie this together, some way or another.

Mr. HENDERSON: Mr. Chairman, this is because the final payment was made during the fiscal year you are examining. In fact the Treasury Board submission here, to pay them, is, I see, dated March, 1964. Would that be right?

Mr. BIGG: When was the end of stage I; what, roughly, was the time—1963 perhaps?

Mr. HENDERSON: We would have to take a few moments to study this, Mr. Bigg, if you want to carry on discussing this.

Mr. BIGG: No, it is not important.

Mr. LEFEBVRE: Mr. Chairman, something else should be made clear. Does the \$49,299 pertain only to stages II and III and, if so, why is not stage I included in this?

Mr. HENDERSON: Stage I was completed, and paid for.

Mr. LEFEBVRE: Yes, but stage I covers the money we paid?

Mr. HENDERSON: That is right. But he had the plans ready for stages II and III so they had to be bought.

The CHAIRMAN: But I still do not know why we are talking about some-things which occurred in 1951. Mr. Bland, can you fill us in on this?

Mr. BLAND: We had a rather long drawn out negotiation with the consultant. That is the answer.

The CHAIRMAN: There is no doubt about that.

Mr. BLAND: He wanted a little more than we gave him; perhaps we were too tough.

The CHAIRMAN: Do you mean that you kept this discussion going for that many years?

Mr. BLAND: We had great difficulty in keeping it going.

The CHAIRMAN: How many years? Since 1951?

Mr. BLAND: Virtually, 1951, that is right.

The CHAIRMAN: Well, this contractor must not need money very badly, if he can wait 15 years for his money.

Mr. BLAND: I said to the deputy that it would probably clinch Mr. Tardif's decision to have his boy become an engineer.

Mr. HENDERSON: I should say that the consulting engineers were asking for quite a bit more than they were actually paid. This figure of \$49,299 represents a negotiated settlement by Mr. Bland and his associates.

Mr. BIGG: When did they first ask for this, according to your records?

Mr. HENDERSON: Oh, this goes back to 1961, 1958, 1956; this is an office memorandum I have on the various steps.

Mr. BIGG: They did not sleep on their right the whole 15 years.

Mr. BALLARD: Mr. Chairman, I assume now that it was so, but I would just like to ask Mr. Bland if the \$49,000 is in accordance with, or less than, the normal scale of fees charged by consulting engineers for this type of work, for the amount of work they had done?

Mr. BLAND: I would say it was in accordance with. There was some completed work and the difficulty was to establish a fair price for the uncompleted work.

Mr. BALLARD: Do consulting engineers have a scale of fees the same as architects?

Mr. BLAND: Yes they have. Not the same scale, but they have a scale.

Mr. TARDIF: It is based on a tariff, an accepted tariff?

Mr. BLAND: This is correct.

Mr. BIGG: Are these plans of any use? Could these plans be used, shall we say, for completing stages II and III somewhere to date? Would there be any of the \$49,000 which you could say was in investment in the future?

Mr. BLAND: I am not showing you a practical answer, Mr. Bigg. Hypothetically, yes. But I do not know what has happened at Camp Wainwright since 1951.

The CHAIRMAN: In 1951 your department asked these consultants to draw up plans for this sewerage water work, et cetera, in three stages, I, II and III. Number one stage was completed when?

Mr. BLAND: I think it was completed in 1951, do you have that detail?

The CHAIRMAN: Well, we will assume it was completed then, for the time being.

Mr. BLAND: Well, the note I have does not give the date, Mr. Chairman. It says stage I was completed and the consultant was paid for services rendered in accordance with the contract for this completed stage I.

The CHAIRMAN: And you have the amount for stage I?

Mr. BLAND: I think it was in the order of \$10,000; I think perhaps the Auditor General will have that.

The CHAIRMAN: Then you kept the drawings or he kept those drawings for stages II and III.

Mr. BLAND: Stages II and III were not proceeded with. However, certain work related to these stages had already been carried out by the consultants and in the year under review \$49,299 was paid.

The CHAIRMAN: When did you credit Belyea for his fees for stages II and III?

Mr. BLAND: I do not have this in my working papers. I might be able to locate it in my briefcase.

The CHAIRMAN: But you would render an account to Department of Defence Production.

Mr. BLAND: Defence Construction Limited.

The CHAIRMAN: Let us follow this step by step now.

Mr. HENDERSON: I can tell you that, I think, 1956 it appears to have crystallized here.

The CHAIRMAN: He rendered an account. And you would carry this as an unpaid account in Department of Defence Production since 1956?

Mr. BLAND: We would carry it, that is correct.

The CHAIRMAN: As an unpaid account?

Mr. BLAND: I do not know that we would call it an unpaid account.

Mr. TARDIF: I think you call it an account in negotiation, do you not?

The CHAIRMAN: Well, you received plans for stages II and III.

Mr. BLAND: No, we did not receive plans.

The CHAIRMAN: Well he had them.

Mr. BLAND: No he did not have them.

Mr. BIGG: What did he do to earn \$49,000 if he did not draw plans? Just keep on staff doing nothing, or some like that?

The CHAIRMAN: I understand this consultant prepared all the stages I, II and III at once. He used stage I but never used stages II and III.

Mr. BLAND: No, I do not think your understanding is correct, Mr. Chairman.

The CHAIRMAN: Well now, you correct me. I want to know why something since 1951 to 1966 has not been settled either as an unpaid account, or paid, or why the Auditor General has not found it before now.

Mr. BLAND: I can answer that question very easily. The answer to that question was that we could not get the consultant to come to our offices to negotiate. He claimed X, we were not prepared to pay X and we could not get him to sit down with us to negotiate, until the year under review.

The CHAIRMAN: Negotiate for what? Stages II and III?

Mr. BLAND: That is correct.

The CHAIRMAN: He drew the plans for these stages?

Mr. BLAND: No, no. The point is that he completed the plans for stage I and he had done certain work related to stages II and III but had not completed the design. I will have to get the records to list the work that had been done. But this is what the argument was about; what was the value of the work he had done on stages II and III before they were cancelled.

The CHAIRMAN: When did he bill you then for his work for stages II and III.

Mr. BLAND: 1956.

The CHAIRMAN: He submitted a bill.

Mr. BLAND: This is my understanding from the Auditor General's record.

Mr. LONG: There are some schedules attached to that Treasury Board submission, Mr. Bland, at the back which you might be able to interpret. There are some listings there of various amounts.

Mr. HENDERSON: There was a total payment made to him of nearly \$60,000 of which \$49,299 is considered to be the non-productive expenditure portion. A description of this relates that the big money in it is electrical distribution stages II and III, sewage connections stages II and III, \$6,000 and \$8,000; water distribution stages II and III, \$10,000; terraces, drainage, roads, stages II and III \$17,200; siting counter survey and layout site plan stages II and III, \$3,000; and it was determined by us, with the departmental officials, that the figure given in the note was the non-productive part.

I would like to add, Mr. Chairman, in answer to the question you raised on why I should not have brought this to your attention before, as an unpaid bill, that we do not bring matters under current negotiation with the department, or that are in an unpaid status like this, into our reports. We are dealing with these items strictly on the basis of the year in which the final settlement happens to be made. That can be varied, but you see we could embarrass a department by bringing up cases on which they are negotiating. I think it is better to leave it on the present method.

Mr. BIGG: I would just like to know what was the original contract: Did he contract to do all three stages?

Mr. BLAND: Yes.

Mr. BIGG: On the original contract?

Mr. BLAND: That is right.

Mr. BIGG: And was he expected to go ahead with stages II and III without further orders?

Mr. BLAND: The original contract had an estimated value of \$323,000. He had completed stage I when the decision was reached to cancel the job.

Mr. BIGG: Was there no escape clause? Was there no cancellation clause that he would be given certain out-of-pocket expenses on the second and third stages of this project?

Mr. BLAND: This is what happened in fact. He was paid what was calculated to be a reasonable tariff for the work done and the results produced, although not complete on stages II and III.

Mr. BIGG: Was there nothing in the contract which stated what kind of a percentage basis this would be on?

Mr. BLAND: Yes, yes. But it was a question of determining the value of the proportion of work completed. The materials turned over to the department were not complete plans and specifications; I know from one case where no specification was provided. So the total fee that would have accrued to the consultant had he completed this, was reduced by an amount which was negotiated between the consultant and ourselves.

Mr. BIGG: And you are happy that he got a *quantum meruit*, as they say in law, that he got what was coming to him?

Mr. BLAND: Yes.

Mr. TARDIF: What was the tariff on that, on the complete job? If it was a \$183,000 job—

Mr. BLAND: \$323,000.

Mr. TARDIF: Oh excuse me. I understood \$183,000.

The CHAIRMAN: Well, Mr. Bland, I do not know just how to explain this, but the term "sloppy bookkeeping" I, think, would possibly fit in here some place. I just cannot imagine this having been let go for so long. And you say this man would not come in and sit down and talk it over with you?

Mr. BLAND: That is correct. What can you do about a man who will not come in and sit down and talk it over with you?

The CHAIRMAN: I would not pay him in the end.

Mr. BLAND: You would not?

Mr. FORBES: It appears to me that this is a case where the department saved a considerable sum of money by prolonging the payment until this man was willing to sit down and negotiate. This is one item we have got where they saved some money. I think that is commendable.

The CHAIRMAN: They got interest on the money.

Mr. FORBES: That is it.

Mr. TARDIF: What did he figure the tariff on the job? Because I think the tariff in engineering is 6 per cent or 6½ per cent.

Mr. BLAND: This is an example quoted from this paper: for design of a sewage system including a sewage treatment plant, a fee for plans and specifications calculated at 2.7 per cent and bills of material at .3 per cent, for a

total of 3 per cent of construction costs. Each item of the development at Wainwright was negotiated on a percentage fee.

Mr. BIGG: How much did he bill you for, when you first sat down? You paid him \$49,000 was it?

Mr. BLAND: This indicates that his bill was \$73,200, in round figures.

Mr. BIGG: That is what he billed you for, is it?

Mr. BLAND: Correct.

The CHAIRMAN: All right. We will proceed.

Mr. HENDERSON: There is one more non-productive item in 1964, Mr. Chairman. You might like to just finish that up.

The CHAIRMAN: Number 9.

9. COST OF DESIGN OF AIRCRAFT FUEL STORAGE FACILITIES NOT PROCEEDED WITH, SYDNEY, N.S.—By agreement dated January 12, 1962 an engineering firm was engaged by Defence Construction, (1951) Limited to design aircraft fuel storage facilities for the Navy at Sydney, N.S. Construction of the project was deferred indefinitely, and since all design services were completed the firm was paid \$25,353, including a fee of \$19,500 for the design and preparation of working plans and specifications representing 3 per cent of the estimated construction cost of \$650,000.

Mr. HENDERSON: Number 9.

The CHAIRMAN: Before we proceed with that, could we have the consultant's name on this number 8 case?

Mr. BLAND: Ripley.

Mr. HENDERSON: Ripley and Associates. Consultants.

The CHAIRMAN: Are they in business today?

Mr. BLAND: Yes, as far as I know.

The CHAIRMAN: All right, we can proceed with number 9.

Mr. HENDERSON: Number 9 is a case of construction of a project having been deferred indefinitely, with the engineering firm being paid \$25,353 including a 3 per cent fee on what the construction would have cost if it had been proceeded with.

Mr. TARDIF: What was the status of the chap who decided that this was necessary and what is his status now for finding out that it was not? You know, I would like to get answers to those questions, Mr. Chairman. I am not asking them just because they sound humorous because they are actually not. I am suspicious that this fellow, probably when he decided that, was a captain, and ended up by being a brigadier general. Maybe he was a major or a rear admiral, or something.

The CHAIRMAN: Would you direct your question to Mr. Armstrong for the person's name and what you want to know?

Mr. TARDIF: I would like to know this because this happens repeatedly, Mr. Chairman. Before you decide that a job of \$650,000 is necessary, there must be some consulting with the people who are going to use this facility. Then, all of a sudden, you find out that it is not any more, but where and who is the chap responsible for making that decision?

Mr. ARMSTRONG: Well, if I have to answer the question I am not sure I can specify individual names in the case. This construction proposal at Sydney was designed to provide an alternate base on the east coast to Halifax. That was the object, to provide for some dispersal. When you ask how did this get approved, my recollection is that this particular plan and policy was discussed by the naval board at that time and, I believe, subsequently by the Chiefs of Staffs Committee and subsequently approved by the department. As a consequence, it was decided that the plan go ahead. The original estimated cost of building these particular storage facilities—this was in 1961 I think—was about \$400,000. When it was designed the consultant estimated the cost at \$640,000. Tenders were actually called for the project in the early part of 1963, and the cost of the lowest tender was \$899,500. As a consequence of that, there was a further examination of policy on whether, in fact, that kind of expenditure was justified, and the decision was taken not to go ahead with it.

Mr. TARDIF: The price went up from an estimated \$400,000 to an actual \$800,000 and some odd within one year?

Mr. ARMSTRONG: No, that was not one year. The estimate I mentioned was in 1961 and the low tender, when the tenders were called, was May, 1963, and at that time the actual lowest tender received was \$899,500.

Mr. TARDIF: But that is double the original estimate.

Mr. ARMSTRONG: Yes it is.

Mr. McLEAN (*Charlotte*): Mr. Chairman, are not some of these things caused by planning too far in advance and then something happens in the meantime?

Mr. ARMSTRONG: Well, I suppose you are in something of a dilemma. It seems to me the chances of spending money unwisely are greatest if you do your planning on a short term basis. In other words, you do need to do your planning on a long term basis. Now, doing it on that basis obviously you also have to be prepared to make some changes as conditions change.

Mr. McLEAN (*Charlotte*): Some of these things, it seems to me, are due to long term planning.

Mr. ARMSTRONG: I am suggesting to you, sir, that in the defence business the greatest dangers of wasting money are short term planning because then your plans never fit together. You must do this on a reasonably long term planning basis.

Mr. McLEAN (*Charlotte*): Well, then you will admit that we are going to run into this sort of thing all the time?

Mr. ARMSTRONG: Well, I am prepared to admit that it probably will not be the last time because I think you would also agree that it makes sense if you decide not to go ahead with it, to save the amount of money you otherwise would spend.

● (5.30 p.m.)

The CHAIRMAN: Well, gentlemen, that concludes the 1964 Auditor General's remarks on national defence. It is 5.30 p.m. Would you agree for a fifteen minute break and then start on the 1965 report or what is your wish?

Mr. TARDIF: If it is necessary for the witnesses to come back again, I would say we adjourn.

The CHAIRMAN: So we will then take that suggestion. I am sorry to have to ask you to come back again, Mr. Armstrong, on Tuesday, at 3.30 p.m. and we will ask to have somebody from Department of Defence Production and we will arrange to invite them.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

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HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

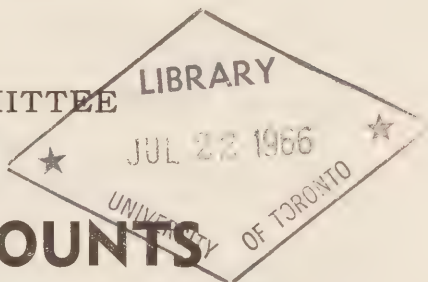
1966

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES



MINUTES OF PROCEEDINGS AND EVIDENCE

No. 15

TUESDAY, JUNE 14, 1966

Public Accounts, Volumes I, II and III (1964 and 1965)

Reports of the Auditor General to the House of Commons (1964 and 1965)

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. E. B. Armstrong, Deputy Minister of National Defence; Mr. G. W. Hunter, Deputy Minister of Defence Production; Messrs. Comach and Smith of the Department of Defence Production; and Mr. A. G. Bland, President, Defence Construction (1951) Limited.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,	Mr. Leblanc (<i>Laurier</i>),	Mr. Thomas (<i>Maison-</i>
Mr. Ballard,	Mr. McLean (<i>Charlotte</i>),	<i>neuve-Rosemont</i>),
Mr. Bigg,	Mr. Morison,	Mr. Thomas (<i>Middlesex</i>
Mr. Cameron	Mr. Muir (<i>Lisgar</i>),	<i>West</i>),
(<i>High Park</i>),	Mr. Noble,	Mr. Tremblay,
Mr. Dionne,	Mr. Racine,	Mr. Tucker,
Mr. Flemming,	Mr. Schreyer,	Mr. Winch—24.
Mr. Forbes,	Mr. Stafford,	
Mr. Gendron,	Mr. Tardif,	

Edouard Thomas,
Clerk of the Committee.

(Quorum 10)

MINUTES OF PROCEEDINGS

TUESDAY, June 14, 1966.
(21)

The Standing Committee on Public Accounts met at 3.50 p.m. this day, the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Baldwin, Ballard, Bigg, Forbes, Gendron, Hales, Leblanc (*Laurier*), Lefebvre, Muir (*Lisgar*), Noble, Schryer, Stafford, Thomas, (*Maisonneuve-Rosemont*), Thomas (*Middlesex West*), Winch (15).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long, Assistant Auditor General; Messrs. Douglas, Laroche, Rider and Hayes of the Auditor General's staff; Mr. E. B. Armstrong, Deputy Minister of National Defence; Brig. L. W. Lawson, Judge Advocate General; Lt.-Col. England and Mr. Turner of the Department of National Defence; Mr. G. W. Hunter, Deputy Minister of Defence Production; Messrs. Comach, Smith, Radley, Andrews and Loveridge of the Department of Defence Production; Mr. A. G. Bland, President, Defence Construction (1951) Limited.

The Chairman voiced a welcome to a group of West Indies governmental representatives who are taking a Public Administration course at a local university.

Messrs. Henderson and Bland gave the Committee additional information with respect to previously covered items.

The Chairman, after introducing the Deputy Minister of Defence Production, opened the meeting to the questioning of the representatives of this department, the Auditor General and National Defence. The items covered were:

- (1) Appendix 2(3) 1964 Auditor General's Report—Additional cost due to faulty specifications and drawings.
- (2) Appendix 2(4) 1964 Auditor General's Report—Contract for magnetrons cancelled.
- (3) 1965 Auditor General's Report:
 - (i) Paragraph 75—Bobcat Program for development of army vehicles.
 - (ii) Paragraph 77—Bomb Toss Computer.
 - (iii) Paragraph 83—Electrical relays found unsuitable.

The questioning of the witnesses continuing at 5.25 p.m., the Chairman adjourned the meeting to the call of the Chair.

Edouard Thomas,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, June 14, 1966.

● (3.51 p.m.)

The CHAIRMAN: Gentlemen, we have a quorum. I would like to bring to the attention of the committee that we have in our audience today some students of the public administration course at Carleton University. As I understand it, these students are deputy and assistant deputy ministers in their own right in the countries from which they come, chiefly in the West Indies. We are happy to have you as our audience in the Committee on Public Accounts. At the close of the meeting if there are any questions you would like to ask of members or of the Auditor General or your Chairman, we will be glad to stay for a few minutes.

You will recall, gentlemen, that I wrote on your behalf to Mr. Ross, the President of the Institute of Chartered Accountants, expressing our great interest and appreciation for recognizing the Auditor General's office as a centre of training for students in their C.A. degree work. We have an acknowledgment from Mr. Ross, the President, which I would like to read into the record. It is addressed to your Chairman.

Dear Mr. Hales,

It was very kind of you to write me concerning the new status of the Auditor General's office in the Institute. We too are pleased at the development. Mr. Henderson has been known to many of us for a good many years and we have a great respect for his professional standards and capacity.

As I am sure you know, a careful examination was made of the practices in his office and the proposal approved by the membership was based on the unanimous recommendation of the investigating committee.

Yours very truly,

J. A. ROSS,
President.

I will file this with our Clerk.

There are one or two follow-ups from our last meeting. I think the Auditor General, Mr. Henderson, will commence with that. Then I think Mr. Bland has an answer which we requested.

Mr. A. M. HENDERSON (*Auditor General of Canada*): The first item, Mr. Chairman, which I would like to bring to the attention of the members is that at the May 31st meeting of the committee when Paragraph 122 entitled "Continuing federal assistance to interprovincial ferry services" of my 1965 Report was under discussion, I undertook in response to a question from Mr. Tardif to

ascertain and report to the Committee on the nature of the commitment given to private interests, on which basis they in turn undertook substantial commitments related to the acquisition of a ferry vessel for the Matane-Godbout service and for the construction of the Godbout terminal.

I can advise the committee that the commitment given by the federal government was that it would construct the ferry landing at Matane, provided that the ferry company supplied the ferry vessel; and constructed the landing at Godbout and did not request a federal operating subsidy. The ferry company did supply the ferry vessel at a cost, I believe, of about \$400,000. I think that furnishes the information which was requested.

Mr. WINCH: I have one question. The ferry company supplied the vessel, but is my memory correct that it received over a million dollars from the federal government for the purchase of the vessel?

Mr. HENDERSON: I believe, Mr. Winch, that is another ferry, if I may be permitted to say so. I believe you are thinking of the one on which the duty was remitted, that is the ferry acquired from Mackinac.

Mr. WINCH: That is not the same?

Mr. HENDERSON: I understand it is a different ferry. I am glad you raised this though, because I believe that point came up at the last meeting, but it remains our understanding it is a different ferry.

Mr. WINCH: Unfortunately, I was not at the last meeting.

Mr. HENDERSON: I believe in this case they supplied the vessel, and that the cost was in the order of \$400,000. It is a different vessel.

Mr. WINCH: Has any subsidy been paid at all on this?

Mr. HENDERSON: I understand not.

Mr. BALLARD: I missed the import of the answer given by Mr. Henderson. Did he say the ferry landings at both terminals were built by the federal government?

Mr. HENDERSON: No. Just the ferry landing at Matane. They were to construct the ferry landing at Matane providing the ferry company supplied the vessel, constructed the landing at Godbout, and did not ask for a federal subsidy.

Mr. BIGG: I was wondering how people could give commitments which the treasury board reluctantly approved of. How is it that an official can give a commitment to a private company such as that and put the treasury board in a spot? Is there not a stricter type of procedure where he has to act within his authority? I am talking about the second last paragraph on page 77.

Mr. HENDERSON: That is perfectly right, Mr. Bigg. It has happened before and I suppose it will happen again that some official, in this case, it would presumably have been from the Department of Public Works, or possibly the Department of Transport, would give an assurance that a proposition like this would commend itself to the treasury board, and that might turn out to be construed as a commitment.

Mr. BIGG: \$172,000 is a large sum of money to be "reluctantly paying" and I think, just as a warning from the committee, that this matter should be looked into very carefully.

The CHAIRMAN: Your observations will be noted in the report which we make, Mr. Bigg.

Mr. HENDERSON: I have nothing more to add to that.

The CHAIRMAN: I think Mr. Bland has an answer which was asked for the other day, and then we will proceed with our new business.

Mr. A. G. BLAND (*President and General Manager, Defence Construction (1951) Limited*): Mr. Chairman, I was asked if the consulting engineer who prepared the design for the hangars which were constructed at Summerside and Greenwood was paid a fee for the daily costs which were paid to the contractors. The answer is, no he was not.

The CHAIRMAN: Now, gentlemen, if you will turn to the Auditor General's 1964 Report at page 169, item 3, you will recall that at our last meeting we discussed this matter of the purchase of signal flares for the Royal Canadian Air Force. The committee asked many questions concerning this matter, and some of these questions could not be answered by the Department of National Defence, but it was felt that it related more to the Department of Defence Production.

We have invited Mr. Hunter, Deputy Minister of Defence Production, to be with us, and you are now at liberty to direct any questions that you wish to him, or to ask any other questions concerning this purchase of signal flares for the R.C.A.F.

Mr. WINCH: I think what we have in mind here is why there is approximately \$29,000 more than the initial—and I am going by the Report of the Auditor General—firm price for 7,500 flares; why a \$29,000 expenditure above an initial firm price? I think that is the answer I would like to get from Mr. Hunter.

The CHAIRMAN: Mr. Hunter, I am sure you would like to make some observations.

Mr. G. W. HUNTER (*Deputy Minister of Defence Production*): Mr. Chairman, I have a short statement if I might read it. I think it would be helpful because it tells the whole story. It is about one page.

The CHAIRMAN: All right. In view of the fact that there are several at the back of the room, would you just talk as loudly as you can so they can all hear.

Mr. HUNTER: The distress signal in question was of United States Navy design. United States drawings and specifications provided to the Department of Defence Production through the Department of National Defence were understood to be those which governed manufacture of the signal flares which we had previously imported from the United States. Consequently, there was no concern at the time regarding the producibility of the flares in question in Canada in accordance with the specifications which we were provided.

By July, 1957 when preliminary production had commenced, inaccuracies and conflicts within the United States drawings and specifications were discovered, and it gradually became evident that design changes must have been authorized to the United States manufacturer, and that the United States drawings had not been corrected to remove the inaccuracies. Some components,

if made strictly to the drawings, could not be assembled, or would not function properly after assembly. The testing of initial production samples confirmed that specified performance was unattainable from the specified materials and manufacturing process.

It is to be noted that almost all ammunition and similar military stores used by Canadian defence forces are either of United States or British design. Experience has demonstrated that design changes originating in these countries at that time were very slow in reaching Canadian design authorities. Tight United States security regulations delayed the processing of technical information to other countries, and made it very difficult for Canadian design authorities to obtain up to date technical information on manufacturing design drawings.

The contractor encountered unforeseen difficulties in procurement of some materials required in very small quantities. For example, a cellulose nitric plastic was obtainable only in bulk quantity of 300 pounds, whereas the contractor needed only four and a half pounds for the entire contract. There were several such materials and the difficulty resulted in extensive lost time due to the necessity for the government inspection testing of substitute materials.

By early 1962 the contractor had lost over 530 working days due to the processing of some 27 design changes and the associated testing of materials and components. One item of material, it was discovered, had not been manufactured in the United States since 1944. This was a firecracker fuse specified by United States manufacture type number. The total cost of this fuse was insignificant, and the Canadian contractor had not been concerned at the time of his making a quotation as he was accustomed to using firecracker fuses in his commercial operation.

In August of 1961 the contractor submitted a request for consideration of out of pocket additional costs. The Audit Services branch conducted an audit and in its report dated April 12th, 1962 it was disclosed that allowable costs totalled \$72,651.58, sales tax and profit extra, for the production of 4,920 already completed signals.

Pursuant to treasury board minute 610280, dated April 26, 1963, the contract was amended to reduce the quantity to 4,920 signals already delivered, and establish a final price based on the audited cost plus a reduced fee based at 4½ per cent of the estimated cost of production, exclusive of any contractor's development costs.

That is the end of my statement, Mr. Chairman.

Mr. WINCH: May I say that I think we have just listened to a rather amazing statement by Mr. Hunter, and because his statement was written, this committee naturally has a number of questions to ask.

First of all, can we find out why, in view of Mr. Hunter's statement, and I think I have it correctly, there was "tight" information by the United States that certain information was not available. Second, why was it that in April, 1957, the Department of Defence Production let a contract for flares on which, because of a tight United States security, you did not have all the information; and also your statement that one of the materials involved had not been

produced in the United States since 1944. You had a contract for Canada in 1957 on material not available in the United States since 1944. Can you give this committee some information on how you operate?

Mr. HUNTER: With respect to the question of "tight" information, I did not mean that the information to our design authorities was difficult to get. There has been some inference from the story I read in the paper on the earlier discussion of this item that possibly the French production or the Canadian contractor should have been quite aware of all the materials which would be an item of relatively new ammunition.

Mr. WINCH: Do you not give him specifications?

Mr. HUNTER: Yes, we do, sir, but the question was whether we should have known or the contractor should have known that these did include certain materials that might have been out of production.

Mr. WINCH: Is it not your responsibility when you let the contract as to whether or not these things are available or in production?

Mr. HUNTER: I would say, sir, that it is the responsibility of the Department of Defence Production and the design authority which is the Department of National Defence. This was a store that had never been made in Canada. That was my reason for mentioning the fact that it was not generally known to everybody, to all contractors who might bid on this, whether all of these items were available. They were told that this item was in production in United States, which it was. They properly had assumed that these were the latest drawings. As it turned out, and as I told you, they were not. But this was one case in, I hope to say, more than a thousand; it is one of two cases, frankly—the other case is the next item—that we have been given drawings which were improper or were not the latest version, and really led us to any substantial expenditures as a result of mistakes.

Mr. WINCH: On what possible reasonable basis could the Department of National Defence issue specifications for a contract on something which was out of production in 1944?

Mr. E. B. ARMSTRONG (*Deputy Minister of Department of National Defence*): It was our responsibility to issue the specifications and, as Mr. Hunter has pointed out, this type of store which had been acquired before for the R.C.A.F. had been purchased from United States sources. When tenders were called for in Canada the only specifications available to us were the United States specifications. We asked the department of the United States Navy for the military specifications for the article, and we were supplied. As it turned out, as Mr. Hunter has pointed out, there were some amendments to that specification that for one reason or another were omitted when it was supplied to us.

Secondly, as I understand the situation, the manufacture in Canada, and as Mr. Hunter I think pointed out in his statement, involved the substitution of materials which had been used in the United States design. This in itself caused problems in terms of the specification which involved some modifications to it. As a consequence of all of these factors, there were, I think, if I remember rightly, 26 design changes, and of those twenty-six there was only one change which really originated by the design authority, that is the R.C.A.F., and it cost,

if I remember rightly, \$1,800. This accounts for \$1,800 in the change of price; the other came about through the process which Mr. Hunter and I have described.

Mr. WINCH: I am not too much concerned about an expenditure of only \$28,000. There is a very important matter of principle here, and the principle is that when you wanted to let this contract in 1957, you had to get the specifications from the United States, our compatriots, and they gave you specifications of 1944 when they stopped production on one item. In 1957 you received that.

Mr. ARMSTRONG: I do not think it is correct to deduce that they gave us specifications of 1944. They gave us their military specifications for this item. Inadvertently, or for one reason or another, some of the design changes made in that military specification were not included in the specifications we received. Ultimately, some changes had to be made.

Mr. WINCH: Does this happen very often?

Mr. ARMSTRONG: Not very often.

Mr. BIGG: It seems to me that what happened is something like this. You tried to get exactly the same fuse; I suppose they were obsolete in the United States by the time we bought them, and you asked them for the plans of this thing and they just made a mistake in giving you the plans for Mark I instead of Mark VII. It seems a simple thing to have gone back to the United States and said, "You made an error, please give us the plans for your Mark VII". Then if there were minor changes to be made, all right.

I notice another discrepancy, namely we ended up with 5,000 fuses instead of 7,500, and apparently you paid them \$28,000 more than the initial firm price for the full 7,500, which makes it roughly double, you have doubled the contract.

The CHAIRMAN: Please direct your questions to the officials, Mr. Bigg.

Mr. BIGG: Who was responsible for not making a rapid check with the United States authorities to get plans for the new fuse, instead of blaming the R.C.A.F., the Defence Production, and so on. Who was responsible for not checking right away?

The CHAIRMAN: All right. Your question is, whose responsibility was it for checking designs? Well, I suppose the designs came from the Department of National Defence and were turned over to Defence Production.

Mr. ARMSTRONG: The design authority is a Department of National Defence; in this case the R.C.A.F.

The CHAIRMAN: Now, I think that answers your question. Please try and be brief and to the point. The question was, whose responsibility was it to check the designs. The answer is the R.C.A.F.

Mr. BIGG: I have a supplementary question which is right in line. Have any steps been taken to streamline this procedure so that we do not have five years of confusion?

Mr. ARMSTRONG: Well, that is a rather difficult question to answer. As Mr. Hunter pointed out, he only knows of two instances of this kind. The specifica-

tion which was provided turned out not to be the fully amended specification. As I recall, I think this was ascertained within a relatively short time after the contract was awarded. There were considerable difficulties even after that in producing this store for a variety of other reasons.

Mr. BIGG: It was not the flares that cost all this money then?

Mr. ARMSTRONG: No, I do not think so.

The CHAIRMAN: I recognize Mr. Ballard, and then Mr. Henderson has an observation.

Mr. BALLARD: Mr. Chairman, I think the place where the error was made—and I received this impression from Mr. Henderson's report where he said it was later determined that the drawings and specifications which had originated in the United States had never been used for production—is not in the fact that the contract was awarded for something for which the prototype had not been built, nor the fact that there had been any experience from previous production. In other words, they let a contract for a large job without having any end proof that the object would work. I am wondering if this is the usual procedure in the Department of Defence Production?

The CHAIRMAN: I believe Mr. Henderson has an observation here.

Mr. HENDERSON: Mr. Chairman, Mr. Ballard's statement is correct and in accordance with the facts. Mr. Hunter mentioned that this payment of \$28,868 had been authorized by order in council 610280 which is correct, and that is dated May 9, 1963 and is signed by the Minister of Defence Production. I have here the request to the treasury board for this order in council, and I think it sums up very precisely what happened.

At the time of the tender and the award it was understood that the store had been manufactured in the United States, to the specifications and drawings provided. Consequently, there was no reason for concern over the producibility of the store or the appropriateness of the fixed price.

Subsequent to the start of production, the contractor and the design authorities began to discover inaccuracies and conflicts within the stipulated design drawings and specifications, and corrective measures were instituted by design change procedure. These were minor in the beginning and were of such a nature that the contractor and the Royal Canadian Air Force were hopeful that a satisfactory product would be forthcoming. However, as the program progressed problems became more serious and a total of 24 design changes were in the end required. The contractor did not request additional costs for each of these changes as they occurred, in the belief that each one was the last, and that individually they would not amount to too much.

Subsequent to this period, it was discovered that the drawings and specifications, which were of United States origin, had never been used for production, that there had been extensive revision in the United States along the same lines as that represented by the foregoing 24 design changes. The upshot of this total explanation is that we were only able to get 4,920 flares and it cost us \$28,000 more money.

Mr. MUIR (*Lisgar*): Of the 4,920 flares which were finally produced, were they operational and were they ever used?

Mr. ARMSTRONG: The flares which were finally produced were used in the service for training purposes.

The CHAIRMAN: Are they still in use?

Mr. ARMSTRONG: I could not tell you whether they have all been used offhand, but I think probably some of them are still in use.

Mr. WINCH: We now have, from the reading of that order in council, what I think is an extraordinary situation to which this committee is entitled to an answer. I have to speak, sir, from memory, but, Mr. Henderson, I believe you read from the order in council to the effect that the plans and specifications were received from the United States on an item which had never been in production.

Mr. HENDERSON: It was discovered, and I am reading, Mr. Winch, from the—

Mr. WINCH: The order in council?

Mr. HENDERSON: —request to the treasury board for the order in council; that is the document giving them the reasons why the minister wanted it.

It was discovered that the drawings and specifications which were of United States origin had never been used for production. That there had been extensive revision in the United States along the same lines as that represented by the foregoing 24 design changes.

In other words, they had had an experience similar to our own.

Mr. WINCH: Then, Mr. Chairman, I have this point to make for the benefit of the deputy minister, which I think is a logical one. This is a contract for signal flares. There are twenty-four design changes when we start going into production, and the basis upon which the extra payment was made is on the request from the Minister of Defence Production, but this had never gone into production in the United States. Is this the usual procedure and practice of the Department of Defence Production with respect to something which has never gone into production? Apparently you have a contract on something which the United States has never put into production. I think this is a matter of major importance, sir, to our committee, and I hope the deputy minister can give us an explanation.

The CHAIRMAN: I think in fairness to Mr. Hunter, I should say at this point that he was not deputy minister of the Department when this happened. However, I know he is now responsible for the operation of the Department, and can, no doubt, speak on this subject.

Mr. WINCH: I am not casting aspersions, sir. As a member of this committee, I am seeking information.

The CHAIRMAN: That is quite right, Mr. Winch. I did not say that you did not have the right, but I just wanted you to know that Mr. Hunter was not deputy at that time.

Mr. HUNTER: I was assistant deputy. However, I think, as the Auditor General has said, these drawings were never used to produce this article. It seems obvious to me that these were a very early set of drawings which were handed over to our design authority by mistake. They were a very early set and

there had been, in fact, 24 amendments to those drawings to the point where the current production in the United States was using an amended drawing. There is no doubt about it that this was an error; we were given the wrong set of drawings, but this does not happen very often. The reason I mentioned that perhaps my department or the four or five contractors who were given the drawings to bid on would not have known that this was out of date was because of tight security regulations. They would have every right to expect that these were the latest drawings and we accepted them in good faith on the basis they were.

The only other thing I can say is that I have made inquiries since our last meeting to see if this was an occurrence which happens very often. I find that the two contracts, this one and the one for magnetrons which follows this item, are the only two of any substance which any of my people recall, or that I myself recall.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, I think most of my questions have been answered. It seems to me that since this happened back in April, 1957 and since there have been a number of ministers of not only defence, but of defence production, and there have been a number of changes in the department, I would like to ask the Auditor General one question. I know he has to report these unusual occurrences but is there anything, in his opinion, which we can do now other than make the inquiries we have made?

Mr. HENDERSON: I think, Mr. Thomas, that you have elicited sufficient information to be able to reach your own conclusions when it comes to framing your recommendations on these type of cases. The deputy minister has explained that this was a case where they were inadvertently in receipt of the wrong specifications or plans and, after all, mistakes like this occur. It is too bad that we have to go over a list such as this at each of our meetings, but it is a fact of life that we do have to deal with them. It seems to me that you will want to draw your conclusions across the wide range of all of the cases which you have examined.

You have had a different set of facts in each case. However, in running through the cases I believe there has been a certain similarity of cause, if I can put it that way. I do not know whether you will agree with this, but I think that is the responsibility of the committee to determine when it frames its recommendations.

The CHAIRMAN: Just two questions, one by Mr. Noble and one by Mr. Schreyer, and then we will come back to Mr. Winch.

Mr. NOBLE: Mr. Chairman, I would just like to ask Mr. Henderson if there is any good reason why this was not brought before the committee at an earlier date. It seems to me that this happened back in 1957 and now this is 1966.

Mr. HENDERSON: Mr. Noble, the answer to that is very simple, I report on the basis of the year in which the money is paid, and this was paid May 11, 1963 which was in the 1963-64 year and we are looking at the 1963-64 report. I think there is a good case for tackling these things earlier and perhaps on a more preventative basis, but at the speed, if I may say, at which we have been operating that has not always been possible.

Mr. SCHREYER: Mr. Chairman, I would simply ask Mr. Hunter if, arising out of this incident, any changes in procedure have been made or could be made in his estimation to take care of this or prevent it?

Mr. HUNTER: Mr. Chairman, this would be one example which would be a lesson, I suppose, to both the design authority and ourselves on ammunition whereby when we found one small error we probably would assume that there could be others. Mr. Andrews, who is with me, is chief of the ammunition branch, and I am sure this would be the kind of thing which would suggest to him that if it happened again we would probably go back and perhaps make a closer check after we had found one or two errors. This, unfortunately, was a combination of the contractor not telling us, hoping that each one he found was the last one, and another combination. I would say one thing we learned was to check them more closely.

Mr. WINCH: I do not want to carry this on, but I just want to say that this is a very important matter because Mr. Hunter has said three times, with regard to this item itself, that it was a matter of "tight" United States security. So here we have a question which involves flares, "tight" American security, plans supplied to us, and when we go into production they do not work. First of all, I hope we can be assured that there is now some kind of a check on plans and specifications, especially if they have not gone to production, before we start spending Canadian taxpayers' money.

Mr. HENDERSON: That is right.

The CHAIRMAN: Well, I think we have discussed this item fairly thoroughly. We have heard both sides of the question, and I think what is before the committee to decide when we write our report is why did the Department of National Defence, the Department of Defence Production and the contractor not check the specifications more closely, and proceed with the manufacturing before these specifications were put into production.

I think the second question the committee will have to decide is this: Is the Department—and I am referring to defence production—tough enough on these contractors when they come for drawbacks and consideration for delays, etc. Those are questions the committee will have to discuss. We have heard both sides.

We will now go on to item No. 4, namely the magnetrons, which is a similar case. Mr. Henderson has a brief introduction, and then we will hear from Mr. Hunter.

Mr. HENDERSON: In this case, the air force refused to accept any more than 432 units out of a contract for 630 magnetron units being purchased from the manufacturer. The manufacturer claimed that as he had manufactured, or partly manufactured, a total of 630 in accordance with the specifications, he should be paid the full ceiling price, and this is what was done.

Mr. WINCH: Mr. Chairman, before Mr. Hunter gives his information will he fully explain why the air force refused further delivery?

Mr. HUNTER: When the magnetrons in question were ordered from the Canadian Marconi Company the standard procedure for military electronic parts known as "mil specs" was followed. This procedure has been established

because this class of item is normally purchased for use in a variety of equipment. The Department of National Defence subjected a batch of magnetrons to qualification tests, including tests in operational type equipment. The results were completely satisfactory.

The Company then produced and delivered magnetrons with the Department of National Defence inspection services certifying that they all met fully the requirements of the pertinent military specifications which constituted the contractual requirements. When it was found that the magnetrons were giving a very short life in R.C.A.F. operational use, deliveries were stopped and a thorough investigation made. It showed that the U.S.A.F. magnetron specifications included tolerances in one test wider than would ensure satisfactory operation in the radar for which these particular magnetrons were being bought. The radar was of United States design and was obtained from the United States. The possibility of this trouble may not have been discovered by the United States Air Force at this time, and was not known to the R.C.A.F. design authority; in other words, it had not been reported to them.

When all the facts of the situation had been examined it was the opinion of the Department of Justice that the Company was not at fault and, consequently, they were paid for the work they had done.

Mr. WINCH: I think we will all agree, after listening to Mr. Hunter, that the contractor was not at fault, but somebody was definitely at fault for the specifications and in the awarding of the contract because the item was not able to do the job for which it was being purchased.

Therefore, we come back to magnetrons, which are very expensive, being purchased for a specific job, and obviously not capable of doing that job. So we come back now almost to what we had before, that is the Department of National Defence and the Department of Defence Production spending the taxpayer's money for equipment which will not meet the requirements of the job. On what basis then do you lay down your specifications, and then it does not work?

Mr. HUNTER: Well, sir, these magnetrons were manufactured for a variety of equipments; one happened to be this radar, but the same magnetron could be used for a number of other equipments; perhaps other radars and other electronic equipment. The test from the design authority, which was the R.C.A.F., received from the United States authorities was one which covered the whole range of what they felt would cover every one of the uses of this particular magnetron. As it turned out, the MG-2 fire control, for which we were using these magnetrons, after a number of hours of service—and it may have been that we discovered it before the Americans—it was just one shade in the testing of this tolerance band scope in which this magnetron failed.

● (4.30 p.m.)

Mr. WINCH: Mr. Chairman, I think that backs up my statement now, namely that we, because of the United States having certain specifications or a certain type of equipment, seem to automatically accept their specifications and then let the contracts in Canada. This is the second item now which conclusively proves it does not do the job. It seems to me that there is an attitude, if I gather correctly, and I apologize if I am wrong, that you automatically accept any

decision, any specification, from the United States. Yet we now have a second example that the equipment is useless. I say it must have been useless because the air force refused to accept delivery after 432 units had been received.

Mr. ARMSTRONG: I think there is one point which you should be aware of, Mr. Winch. These magnetrons which were used in the MG-2 fire control system on the CF-100 interceptor had been bought in the United States to the specification that they were manufactured to in Canada. However, the production in Canada, as Mr. Hunter has pointed out, failed when they were used in the MG-2 fire control system which is where they were needed. The specification is the same specification that was used for the manufacture of this particular magnetron which was used for the same purpose successfully from United States production.

Mr. WINCH: But not successfully in Canada in the way you used them.

Mr. ARMSTRONG: They were used for the same purpose in some cases.

Mr. WINCH: But they failed?

Mr. ARMSTRONG: The Canadian manufactured magnetron failed.

Mr. WINCH: I think the committee then would like to know why it failed, what was wrong? Was it your department, sir, or was it defence production?

The CHAIRMAN: The question is why they worked in the United States but they did not work in Canada?

Mr. E. O. SMITH (*Control Systems, Department of Defence Production*): Well, sir, I think the answer to that is that the specification in one respect had a somewhat wide tolerance which would not be obvious unless you had been involved in the design of the equipment. In the United States the magnetrons were being made to one end of this tolerance which we were not to know, and we evidently made them to the other side of the tolerance. This was just critical enough that the United States magnetrons operated in this equipment and the Canadian made magnetrons did not.

Mr. WINCH: My question is, why did you not know of your particular situation to make whatever adjustments were required so that it would work?

Mr. CHAIRMAN: Would secrecy be involved in this in any way?

Mr. SMITH: No, sir. I think the fact that it could occur was not known in the United States or in Canada. When it was discovered, a rather large number of magnetrons had already been made and delivered.

Mr. SCHREYER: I believe Mr. Hunter said this piece of equipment did have a variety of purposes or uses, and that it did not work in this particular use. My question is, was delivery accepted for other purposes in which case this would not have been a completely non-productive payment? Perhaps this should be directed to Mr. Henderson. Was delivery taken in any case by the department, if not by the air force?

Mr. ARMSTRONG: As far as Canada was concerned, we only required this magnetron for the one purpose, namely in the MG-2 fire control system of the CF-100 interceptor. The article manufactured in Canada did not work, at least it had a very short life once it was put into use.

Mr. SCHREYER: Mr. Chairman, having paid for possession of this piece of equipment, was possession actually taken even after finding out that it was not particularly suitable for this purpose, or was it left in possession of the contractor?

The CHAIRMAN: I think the answer, Mr. Schreyer, is that 432 units were received, but the contractor was paid for 630 units. Possibly you would like to know why he was paid for 432 when the contract called for 630.

Mr. WINCH: Also sir, as to whether the difference was turned over to Crown Assets Disposal Corporation, or was it left in the hands of the contractor?

Mr. HUNTER: Sir, these would have been all paid for because the contractor had followed the military specifications; this was the specification which we gave him and on which our inspection authority tested it. This was the specification I mentioned which would cover a range and a number of equipments which used it, but would have a short life in this particular use of the MG-2 fire control. As far as I know, these would all have been either used or declared surplus by the Department of National Defence, if they found they could not use them.

Mr. WINCH: Would Mr. Hunter please explain this a bit further:

After 432 units had been received and accepted, the air force refused further deliveries. The contractor having manufactured or partly manufactured the 630 units in accordance with the specifications, claimed and was paid the full ceiling price.

What I would like to know is, having paid the full ceiling price, did you receive the 630 units and, if not able to use them, were they turned over to crown assets or were they left in the hands of the contractor? I know something about electronics, and the contractor could sell or adapt this type of article very beneficially.

Mr. HUNTER: Sir, I am advised that they would all have to be received before any payment could be made.

The CHAIRMAN: The 632?

Mr. HUNTER: That is what my officials tell me.

The CHAIRMAN: The 632 units were manufactured and received by the department.

Mr. WINCH: What happened to them? Were they turned over to crown assets or are they still in storage?

Mr. HENDERSON: I have some information on that, Mr. Chairman.

The contract was for the production, as stated here, of 630 magnetron units at a price of \$454,545. The Canadian manufacturer completed and delivered 432 magnetrons before production was stopped when the air force refused further deliveries. The remaining 198 in a semi-finished state were declared surplus to Crown Assets Disposal at an estimated value of \$190,000. The crown assets' declaration number is 9310. We do not have any information as to what crown assets secured for them. That information should be obtained, but we do not have it here. That is the declaration number.

Mr. WINCH: Did you say \$190,000?

Mr. HENDERSON: They had an estimated value of \$190,600 at the time they were declared surplus which was on Declaration Form 9310. So it becomes a question of looking at that form to see what they realized for them on sale. The Department then turned around and paid the contractor the full ceiling price for the 630.

The point I would like to ask Mr. Hunter, here, Mr. Chairman, is whether he was not of the opinion that the specifications had been at fault, and that the responsibility lay with the design authority? That would be the Department of National Defence. Did you not believe that the specifications might have been at fault and that it was the responsibility of the Department of National Defence?

Mr. HUNTER: As far as I was concerned, these were done to a military specification. We were advised by the users in the United States; they used to have to pass the information over to us. They used this same fire control and since they had not advised us that they had any trouble with it, we could only assume that it was all right. Perhaps they had not subjected it to the same use as we did. I would assume that our design authority would pass this information back because there is certainly no intentional holding back of information that I would be aware of.

Mr. HENDERSON: It is my information that the Department of National Defence went to the Department of Justice to try to secure recovery from the manufacturer. Is that right?

Mr. ARMSTRONG: The problem of settlement with the contractor in a case like this is a matter for the Department of Defence Production. I think it was the Department of Defence Production that went to the Department of Justice; I am not sure. In any event, the Department of Justice was asked for an opinion as to whether the contractor could be held responsible, and in their opinion he could not.

Mr. BIGG: As I understand it, had these units been completed in the United States—I do not know what the exact technical problem was, whether it was thickness of metal or what it happened to be—they would have been satisfactory.

I do not think the manufacturer is at fault if they, shall we say, put in a half inch of lead instead of an inch when the United States were using an inch—somebody thought they would save on metal—and they certainly produced according to the contract. However, if we failed by trying to chisel on the contract, that is because we made it cheaper and it did not work, then I think we should place the blame on the designers.

Mr. ARMSTRONG: I do not think there was any question of so-called chiselling on the contract. As I said earlier, the specification was one on which production had been manufactured in the United States. The magnetrons were used for the same purpose in Canada.

Mr. BIGG: Was that the same specification?

Mr. ARMSTRONG: The same specifications, as I understand it. The prototype production from the Canadian manufacturer was tested on mock-up arrangements and worked satisfactorily. However, when the magnetrons were actually put in use in the fire control system in the CF-100 aircraft they did not work satisfactorily.

Mr. BIGG: Is it too much to ask the United States specifically what went wrong?

Mr. WINCH: Would our friend tell us why, on the same specifications, it works on the same job in the United States, but yet it does not work in Canada?

Mr. ARMSTRONG: Well, I gather, and I am not a technical expert on this subject, that in this specification there is a certain tolerance, I am not sure of the technical name for this, and apparently, depending on whether you are at a given point in this tolerance within a given area, it works satisfactorily in the MG-2 fire control system. However, there are other points in the tolerance where it does not work satisfactorily. In the United States production, using the same tolerance, the same specifications, apparently the magnetrons were manufactured in such a way that the area of this tolerance that worked in the MG-2 fire control system was met, but in the case of the Canadian manufacturer apparently they were at a slightly different area of the tolerance and it did not work.

Mr. BIGG: Do you mean in the machine, or in the metal?

Mr. ARMSTRONG: Perhaps we could get the production officer to explain the technical aspects because I am afraid I am not an expert in this department.

Mr. WINCH: I understand our fire control is under specification of the United States.

Mr. ARMSTRONG: That is right.

Mr. WINCH: If our fire control is under United States specifications, why does it work there and not here?

Mr. ARMSTRONG: The MG-2 fire control system, as is used in the CF-100, is in fact a United States system.

Mr. WINCH: Well, why does it not work in Canada?

Mr. ARMSTRONG: Well, that is what I am endeavouring to explain, but I am not being very successful.

The CHAIRMAN: I believe you wanted Mr. Smith to answer it.

Mr. BIGG: If you are talking about tolerance, it usually means cut to within so many thousandths of an inch with certain lubrications, and if they were not cut to that exact specification they would rattle apart or wear out too fast or jam. If these specifications called for one ten thousandths of an inch instead of one thousandths of an inch, they would have trouble with them. Somebody boo-boomed, that is all.

The CHAIRMAN: I will recognize Mr. Muir, then Mr. Noble, and then I think we will come back to Mr. Smith.

Mr. MUIR (*Lisgar*): Well, my question is very brief too, and it is on the tolerance. In the specifications you received from the United States, does it not state the tolerance that they would be using so that it could be machined, or whatever tolerance means, to the same degree in Canada?

Mr. SMITH: Well, sir, I think I would have to start by explaining that in electronic devices of this type, the specification is not a manufacturing specification as it is with mechanical devices. What the specification does is to present a series of tests which the article had to meet and the manufacturer, whether he is in the United States or Canada, sets up his own design, using his own factory technique. This is the standard practice. The magnetron is a very elaborate device involving both chemistry and engineering.

This particular magnetron design did not give a very good life and Canadian Marconi tried, within the specification, to establish their chemistry to give the best life they could, and within this tolerance, which in fact was on a test condition, not on a mechanical dimension at all, they chose a position which they thought would give the best performance. This was where we ran into trouble because there was no knowledge that where you set the test within this tolerance would affect its performance in the MG-2 radar.

Mr. MUIR: Well, that is fine. Thank you.

Mr. NOBLE: Mr. Chairman, I am wondering why a test was not made of some of the first production to find out whether it was going to be all right before they went ahead and spent approximately half a million dollars and then found out after they spent the money that they were no good. In private business you first take some samples and try them to see if they work before you spend the money. Secondly, I would like to know from Mr. Henderson if this value of \$190,000 was for the whole 620 units or just for the 198 which were not completed.

Mr. HENDERSON: Just for 198.

Mr. NOBLE: Just for the 198?

Mr. HENDERSON: That is not necessarily the price which was realized by Crown Assets. We shall have to find that out, but I do not think it would be that figure.

Mr. NOBLE: Well, Mr. Chairman, I would like to have some explanation from someone about this testing. I think that when you are spending the kind of money, you should make some tests.

The CHAIRMAN: It sounds like a good question. Mr. Hunter?

Mr. HUNTER: Sir, these were tested very thoroughly by the Department of National Defence, and on first operation they were found to meet all the tests. It was only later in the usage life in the MG-2 fire control that they were found to fail. When they were manufactured, tested and given, what was considered I assume by the inspection people, a reasonable test, they did in fact meet the specifications in all of the tests. That is why production continued, and it was only when they were found to fail, possibly when they got the aircraft in use overseas—I do not know where the site of the failures was—

Mr. SCHREYER: Did they all fail? It seems obvious and essential to our questioning to know the definition of the term or concept of "tolerance". It would seem that many of us were thinking of tolerance in terms of mechanical dimension and measurement, when in fact it does not mean that at all. It seems rather to have something to do with durability and performability under

different conditions of use, and so on. I do not know that we are so technically efficient in this committee to follow it up.

The CHAIRMAN: Following Mr. Noble's question of why this test was not made before the contract was let and we were advised that it was taken, I believe it would appear to the committee, and they will have to decide this later, that the Department had a pretty good case against the company, but they did not press the case. I suppose we leave it at that point unless the departments concerned want to elaborate on that. I think you have said what you had to say on it, but that would appear to be the question we will have to settle in the committee, namely whether you had a good case against the company and, secondly, if so, why did you not press the case against the company rather than give in?

Mr. LEBLANC: Mr. Chairman, I just have one question to direct to Mr. Henderson. The price of the contract is \$721 per unit. Now if we turn over to Crown Assets 198 units, the price would be \$143,000. I am just wondering how they arrive at the price of \$190,000 when they assessed the magnetrons turned over to Crown Assets?

Mr. HENDERSON: Well, these were not finished, Mr. Leblanc; they were partly finished or semi-finished. I cannot answer that question precisely for you as this is the figure used by the Department.

Mr. LEBLANC: It is more than the cost of the contract. So I would imagine if they were not finished completely they would turn them over to Crown Assets at the lesser price.

Mr. HENDERSON: I was reading from a departmental document in my working papers at the time.

The CHAIRMAN: All right. I think we will leave this item if the committee is agreed.

While the Defence Production officials are here we would like to deal with those paragraphs in which they are involved, and I think we should go to the Auditor General's Report 1965, page 50, paragraph 77, the Bomb Toss Computer. These are technical items and we are doing our best to follow the technicalities. Perhaps we are just a little ahead of ourselves. We have paragraph 75, the Bobcat program for development of army vehicles, page 46, which reads as follows:

75. *Bobcat Program for development of army vehicles.* On November 19, 1964 the Special Committee of the House of Commons on Defence met with officials of the Department of Defence Production to discuss among other matters a statement furnished by the Department to the Committee concerning the Bobcat Development Program. The text of the discussion and statement will be found in Minutes of Proceedings and Evidence No. 21 of this Committee.

The final settlement of the Bobcat Development Program during the past year brought its total cost to \$9,252,908. The program was a failure. No serviceable vehicles were produced and the Government has since entered into a contract for the supply of 961 United States vehicles at an estimated cost of \$32 million.

The history of the Bobcat Development Program starts ten years ago when a contract was placed in 1954 for the development of a mild steel prototype of an infantry carrier to replace World War II Universal Carriers which were rapidly becoming obsolete. The vehicle was delivered to the Army in the fall of 1956 and cost \$1,010,856.

When the project was reviewed in 1956 it was decided to develop a family of light tracked armoured vehicles known as the Bobcat, for use as personnel, field artillery, infantry weapons and cargo carriers, all having the same basic tracked chassis. About the same time the United States Army which had knowledge of this proposal decided to produce its own armoured personnel carrier with essentially the same main characteristics as the Canadian vehicle. However, the U.S. Army did not propose to meet its several requirements with a common chassis as in the Bobcat family.

The Bobcat Program called for development in three phases. The contract for the first phase covering the development and supply of three light tracked chassis at an estimated cost of \$1 million was approved by the Treasury Board in November 1956. The contract was dated January 2, 1957 but on March 29, 1957 it was amended to provide for the supply of the three chassis complete with bodies. This significant change in the contract was not approved by the Treasury Board until November 1957 when an additional \$250,000 was provided for the project. Further amounts of \$350,000, \$200,000 and \$165,000 were approved by the Treasury Board in June 1958, October 1958 and April 1959 to cover estimated additional costs. There was usually a lapse of about five months between the receipt of the contractor's request for additional funds and its processing through the Departments of Defence Production and National Defence before submission to the Treasury Board. The vehicles were delivered to the Army in October 1958, but it was not until April 1959 that sufficient funds were provided to finalize the contract at a total cost of \$1,933,670.

In June 1958 the Chiefs of Staff proposed the initiation of the second phase of the development program for the production of six hard steel pilot models including production drawings at an estimated cost of \$1,310,000. This was later submitted to the Minister of National Defence for his approval and to the Treasury Board. This submission and an alternative proposal by the contractor to telescope the development and pre-production stages into a production order contract were considered by the Treasury Board on January 23, 1959. However, the Board recommended to Cabinet on January 27, 1959 that there should be no departure from the present concept of the orderly development of the Bobcat vehicle including the procurement of a further six pilot models.

The Treasury Board on April 24, 1959 authorized entry into a contract for the assessment of engineering tests on the three existing prototypes which, notwithstanding its previous recommendation to Cabinet, included the production of one armoured hull of a personnel carrier, the design and manufacture of an unarmoured load carrier body, provision of special parts, tools, test rigs and instrumentation, reports, specifications and literature, and provided \$452,000 to initiate the pro-

ject. In June 1959 the contractor advised that a study of the work required by the Army indicated that funding would have to be increased by \$804,000. On October 29, 1959 the Treasury Board authorized the amount required and made provision for the contract to be amended to include the production of one armoured vehicle complete with armoured hull, a modified version of the prototype design steering and suspension units, the engineering and production of one vehicle set Timken planetary final drives including the drawings, specifications and spares necessary to support vehicle tests, and to provide such tooling, test rigs, and instrumentation as may be required. These amendments were incorporated into the contract on November 13, 1959. In January 1960 the contractor informed the Department of Defence Production that an additional \$644,000 would be required to complete the contract. This amount was provided by the Treasury Board in June 1960, by which time the Board had authorized expenditures of \$1.9 million. The armoured personnel carrier was delivered to the Army in October 1960 and was found to be 2,000 pounds overweight and in need of product improvement before it could be accepted for field use. About the same time the contractor explained that funds originally intended to complete drawings and specifications had been used to cover additional changes in the scope of the actual development work as it progressed, and that a further \$75,000 was required to complete drawings and specifications, which was approved by the Treasury Board on October 28, 1960. The final cost of the work under this contract totalled \$1,972,692, bringing expenditure on the program to this date up to \$4,917,218.

On February 11, 1961 the Cabinet authorized the procurement of 500 Bobcats at an estimated cost of \$25 million on the following basis:

- (a) a pilot production run of 20 vehicles to be carried out at this time at an estimated cost of \$3.7 million (included in the above total) to cover the vehicles, tooling and other related costs; and
- (b) on completion of the pilot production, tenders to be invited for the remaining vehicles on a firm fixed price.

By this time the U.S. Army had its armoured personnel carriers in service, whereas the Department of National Defence was not yet in a position to go into full scale production because only one vehicle had been delivered which was overweight, required further product improvement and had not been proven operationally.

When the Treasury Board authorized the contract referred to under (a) above, the view was expressed that a tight control over specifications governing work under the contract should be maintained at all times. For this purpose the Board requested that an interdepartmental committee continue to screen all proposals involving product improvement before approval was sought to amend the provisions of the contract, and that a member of the Treasury Board staff participate in the work of the committee so that the financial implications of product improvement would be kept constantly to the fore. The interdepartmental committee was formed on April 10, 1961 from which date it held regular monthly meetings.

The contract for the pilot production run, dated April 13, 1961, provided separate estimates of expenditure under each of the following headings: product improvement, production tooling, plant rearrangement, and vehicle production, with the aggregate liability of the Crown under the contract being limited to \$3.7 million. The contract also provided that the contractor was to advise the Minister well in advance if any of the estimated expenditures were likely to be exceeded, and unless such new estimates of expenditure were approved by the Minister any expenditures incurred by the contractor causing the original estimates to be exceeded were not to be reimbursed to the contractor, but at no time were the new estimates to increase the liability of the Crown beyond the ceiling price of \$3.7 million.

The contractor's progress report, giving the financial position of the contract at December 31, 1962, submitted to the interdepartmental committee, revealed that expenditures under two headings of the contract had been exceeded. A subsequent report giving the financial position at March 31, 1963 revealed over-expenditures under all headings of the contract except for plant rearrangement. In August 1963 the contractor indicated unwillingness to continue the contract unless additional funds were provided by the Crown. In September 1963 the interdepartmental committee reported the position to the Treasury Board at which time the contractor's reported costs to July 26, 1963 were as follows:

	Estimated expenditure	Contractor's reported costs	Excess of cost over estimate
Product improvement	\$ 1,096,516	\$ 1,238,328	\$ 141,812
Production tooling	520,570	621,996	101,426
Plant rearrangement	32,636	32,285	(351)
Vehicle production	2,050,278	2,848,430	798,152
	<u>\$ 3,700,000</u>	<u>\$ 4,741,039</u>	<u>\$ 1,041,039</u>

The contract was terminated in December 1963. In February 1964 the contractor informed the Department of Defence Production that, after making an allowance of some \$42,000 for post-termination costs, the total costs had exceeded the payments received from the Crown by about \$1,636,000. The contractor proposed that the excess costs should be shared equally with the Crown on the grounds that "the full implications of the proposed improvements were not appreciated when the contract was let and accordingly there was a considerable under-assessment of the effort required and costs involved. The original armoured prototype, on which the concept of the contract was based certainly did not measure up to the specifications written for and applied to the new vehicles" and experience had shown that, instead of a product improvement program,

this phase of the work involved a redesign of about 90% of the machine. The contractor made formal claim for reimbursement of \$799,612 additional costs and was prepared to absorb all post-termination costs including those involved in the scrapping of the vehicles.

Notwithstanding the fact that the Crown had no legal obligation to pay the contractor's claim (a position which the contractor himself acknowledged) the Department considered that there had been a change in the scope of the work and recommended to the Treasury Board that the claim be settled and this was negotiated and paid in an amount of \$735,621 in April 1964. In the opinion of the Audit Office this constituted an *ex gratia* payment which should have been disclosed as such in the Public Accounts.

Non-productive expenditure of public funds of this magnitude should be subjected to the most searching inquiry to determine how it might have been minimized or contained. Officials of the Department of Defence Production told the Special Committee on Defence that while it was difficult to determine precisely all the factors which resulted in the termination of the Bobcat Development Program, it could be said with some certainty that the following were contributing factors:

1. The scope of the program was not adequately defined at the early stages of the program and consequently the program was inadequately financed. The necessity of re-funding and re-approval at various stages throughout the program resulted in lengthy delays.
2. The design requirements for the Bobcat were altered a number of times over the course of the program which necessitated changes in the development of the vehicle although this is not abnormal in a development program and was probably not a major consideration in the ultimate lack of success.
3. Similar developments were undertaken in the United Kingdom and in the United States and at the time of cancellation of the Bobcat fully operational vehicles were available from the United States at considerably less than the projected cost of the Bobcat and with much earlier delivery for Canadian Army use. The United States vehicle had by that time also been adopted by a number of other NATO countries.

Mr. HENDERSON: Although this has been looked at before, there is a short statement I would like to make.

The Bobcat program was discussed in the defence committee of the House in November, 1964. This is a program which first got underway twelve years ago. Its cost since is over \$9½ million and the amount has been non-productive; no serviceable vehicles were produced and the program was a failure.

At about the time this was discussed in the special committee of the House on defence in November, 1964 the final payment was made on the contract, and because it came in at that date it appears in my 1964 report. This was a payment of \$735,621. It is mentioned at the end of this lengthy note.

In our view the facts clearly indicate that this payment constituted an *ex gratia* payment and, therefore, it should have been disclosed as such in the Public Accounts. It was not treated that way. As you know, there are requirements that *ex gratia* payments be listed separately in the Public Accounts.

I wish to mention this, Mr. Chairman, because that explanation was not given before the defence committee. However, explanations were given before the defence committee, and you will find them at the top of page 50 which I thought this committee would be very interested in because they sum up what caused this failure. This was where the Department of Defence Production told the committee that "while it was difficult to determine precisely all the factors which resulted in the termination of the Bobcat Development Program, it could be said with some certainty that the following were contributing factors."

I think the reasons they have advanced there are frank and are particularly useful to this committee in trying to put its finger on what causes non-productive expenditures, particularly of this magnitude. I believe you will agree with me that \$9½ million is fairly substantial by any standards. I do not know that I need to dwell on these three reasons, Mr. Chairman; they are known to a number of the members. There may be some questions you would wish to direct to Mr. Hunter. This has become history now, I suppose.

The CHAIRMAN: I would just like to ask one question here for clarification. This \$9½ million which the Auditor General refers to, is this over and above the appropriation that we passed in the House now under the Department of Industry, previously the Department of Defence Production? I think it is an amount of \$25 million for technological advancement and development of army, navy, and air force equipment.

Mr. HUNTER: Sir, this all took place before that Vote was first introduced to this Department. I think it was development money of the Department of National Defence.

Mr. BIGG: I would like to make a short gratuitous statement here. I think Canada has a very severe Arctic condition. We were experimenting here, and I might say under great pressure, expecting invasion from the northern parts. We cannot always rely on the United States equipment and so on. They made experiments in the Arctic and they did find out very valuable information in the production of track vehicles and so forth. I think we have to pay for experiments.

Mr. HENDERSON: May I answer that, Mr. Bigg? In the second paragraph I point out that while no serviceable vehicles were produced from this particular program—and there was a very genuine effort to make them in Canada—the government has since entered into a contract for the supply of 960 United States vehicles of somewhat similar design at an estimated cost of \$32 million. So we have gone and bought American equipment after all.

Mr. BIGG: But we do not like to be a satellite in every—

Mr. HENDERSON: I agree with that.

Mr. BIGG: There is advantage in allowing the United States to do all our experiments. However, you can see what happens when security is tested; they do not give us their latest equipment in a great many cases. If we can do a little experimenting on our own we might find ourselves in dispute at times with the Americans. We are very much behind in any matters of defence, and I would suggest that we have to pay something for growing up and for experimenting. This is a rather sad case because I think it is a very expensive program, but I think in principle I would have to go along with the defence department in encouraging its experiments. The Arrow aeroplane was another sad case.

The CHAIRMAN: In other words, Mr. Bigg, it is rather expensive to buy clothes for a growing child but it has to be clothed?

Mr. BIGG: It has to grow up someday.

The CHAIRMAN: This, as Mr. Henderson has said, was discussed quite thoroughly in defence committee. Is there anything you want to say, Mr. Hunter, at this stage? I think we are prepared to move on to the next item.

Mr. SCHREYER: Mr. Chairman, I have one very brief question. I would ask Mr. Henderson if he distinguishes here between non-productive payment and ex gratia payment. I take it that you do?

Mr. HENDERSON: An ex gratia payment is one, as you know, which it is felt is desirable to be paid but for which there is not necessarily a legal obligation to pay. It has always been a requirement that ex gratia payments, wherever they are made by public funds, shall be listed in the Public Accounts in order that members of the House may see them and know the reasons. In my opinion this payment fell into that category. I do not know whether Mr. Hunter shares my opinion on this, but I think he knows why we hold this view. The \$9 million was non-productive because there was no value received. There was experience received, but I mean there were no vehicles produced.

● (5.00 p.m.)

Mr. SCHREYER: Well, of this amount though, you classify less than \$799,000 as ex gratia.

Mr. HENDERSON: This was the final settlement payment made to the Canadian manufacturer during the 1965 fiscal year which was why it did not come into the Report until that year. And that final payment was, by our standards and judgment, ex gratia: it did not have to be paid. The manufacturer had already received something over \$8 million, but they paid it for what, undoubtedly, from their point of view, were sound reasons. I would have no quarrel with that, but it fell into the ex gratia class, and I think that wound up the total obligation they felt they owed the manufacturer.

Mr. NOBLE: May I ask Mr. Henderson who the firm was that did this work?

Mr. HENDERSON: I have no objection to submit the name, but I just do not seem to have it to hand. I am advised that Canadian Car in Montreal was the original firm, then Avro and Hawker Siddeley.

Mr. BIGG: The Defence Department did a lot of experimenting for them?

Mr. HENDERSON: Considerable, yes. This went on for twelve years, you know.

The CHAIRMAN: The next paragraph is No. 77 the Bomb Toss Computer:

77. *Bomb Toss Computer.* In order to meet the requirements of existing bombing techniques, a Bomb Toss Computer was selected in 1959 for installation in the new CF-104 aircraft, the first of which was scheduled for delivery March 1961. A contract with a Canadian manufacturer for work preliminary to the production of the Bomb Toss Computer in Canada was completed at a cost of \$332,000.

On May 25, 1960, although the drawings for the Computer were still in preparation, a contract was entered into with the same manufacturer for the purchase of production inventory material for the manufacture of the first 50 units. The estimated cost of this material was \$885,000.

In the meantime there was a trend developing away from the technique requiring the use of the Bomb Toss Computer and in August 1960 it became known that another type of weapon would very likely become available which would not require the use of this Computer.

In September 1960 the contract was extended to cover the procurement of production inventory material for an additional 188 units at a cost estimated at \$3,481,000. The reasons given to the Treasury Board for the need to extend the contract at this particular time were that there was a very tight delivery requirement to meet the aircraft delivery schedule and that cost savings and a higher Canadian labour and material content would be achieved by purchasing production and spares support inventory concurrently.

In November 1960 it became necessary to equip the CF-104 aircraft with Dual Timers for the delivery of a new type of weapon. These Dual Timers, two of which were required in each aircraft, were being produced in the United States.

At this time it was considered that the Dual Timer did not duplicate the service provided by any of the other weapons systems, nor did it detract from the original purpose or operational value of the existing systems. It was therefore decided that the CF-104 was to be equipped with the two weapons delivery devices.

In February 1961 the contract for the Computer was amended to reduce the purchase of production inventory material from that required for 238 units to that required for 168 units, and at the same time the contract was further amended to include the purchase of 35 completed units on a cost plus ceiling price basis from the Canadian manufacturer, and a further 35 completed units at a lot price from the Canadian manufacturer's associated company in the United States.

In June 1961 the Royal Canadian Air Force discontinued pilot training for the type of weapon the Bomb Toss Computer was designed to deliver, a decision which cast further doubt on the future of the Computer. Nevertheless, it was decided that "the Computer be left in the aircraft to give flexibility of weapon employment for the future", and in September 1961 the contract for the Computer was further amended to provide for the manufacture of 168 additional Computers at a unit price of \$21,933.

This last amendment increased the amount of the contract to \$5,-931,000 covering the following:

Purchase of 35 complete units from the Canadian contractor on a cost plus ceiling basis which averaged \$28,500 per unit	\$ 999,000
Purchase of 35 complete units manufactured by the United States associate of the Canadian manufacturer at a lot price which averaged \$30,300 per unit	1,061,000
Purchase of 168 units from the Canadian manufacturer at a price of \$21,933 per unit	3,685,000
Qualification, sample testing and modification kits	186,000
	<hr/>
	\$ 5,931,000
	<hr/>

Although deliveries under the contract are complete, the contract has not yet been fully settled and changes may occur in the above figures.

By July 1962 it was concluded that the Bomb Toss Computer had severe limitations and would require extensive modifications if it were to be used. It was also found that the Dual Timers, which cost approximately \$1,400 per aircraft compared with \$21,900 per aircraft for the Computer, could provide an accuracy at least as good as that which could be obtained by the Bomb Toss Computer. In January 1963 it was decided to remove the Bomb Toss Computers from all aircraft and to place them in long term storage, and in April 1964 it was decided to dispose of the Computers together with all tooling, test equipment and spares.

Other contracts were involved in the Bomb Toss Computer program, the overall cost of which was \$7,210,000 as follows:

Preliminary work	\$ 332,000
Acquisition of 238 units—detailed above	5,931,000
Tooling and special production test equipment	229,000
Support spares	718,000
	<hr/>
	\$ 7,210,000
	<hr/>

Mr. HENDERSON: I regret to tell you that this is another large non-productive payment. The overall cost of this one exceeded \$7 million.

The principal item had to do with the acquisition of 138 units which, as the tabulation on page 51 shows, cost nearly \$6 million to purchase. You will see that in January, 1963 the Bomb Toss Computers were removed from all aircraft and were placed in long term storage, and in April, 1964 it was decided to dispose of the computers together with all tooling, test equipment and spares.

The CHAIRMAN: I think the committee would like an explanation of why we get into these situations. I realize war and preparation for war is an expensive business, but are we taking all the necessary precautions? Would you like to comment, Mr. Armstrong and Mr. Hunter?

Mr. ARMSTRONG: Well, if I might comment first. I suppose, to put this in very simple terms, this particular piece of equipment simply became obsolete before it was ever put into use. The Bomb Toss Computer which we are discussing is a particular system to deliver a nuclear weapon which would be employed with the 104 aircraft in Europe. This was one of the systems, it was believed, would be used when the aircraft was put into production. Consequently, contracts were entered into to produce this particular system.

Before the aircraft was completed, and before it was put into use, another system called the—and it is referred to in the Auditor General's report—Dual Timer, which was another method of delivering the bomb, was developed and came into use, and the Bomb Toss Computer was gone. That is about the size of it.

Mr. SCHREYER: I would ask Mr. Hunter if it is not a fact that the problem of spending large amounts of money on defence devices, which become obsolete before they are ready for mass scale production is not one facing defence production departments throughout the world?

Mr. HUNTER: That might be a fair statement, Mr. Schreyer, but as far as defence production is concerned, we really take our orders from the military who keep themselves abreast of what is the newest, certainly in this part, of military equipment. Whether this was a case of where someone might have foreseen they were going to have another one, I really could not say.

The CHAIRMAN: It comes right back to policy decisions really.

Mr. ARMSTRONG: I think one point which you should bear in mind in considering an item of this kind—it is true that it is a very expensive item; it is \$7 million—is that it is a very vital piece of equipment in the use of the aircraft. When you consider the cost of the aircraft, the cost of educating people who can fly them, train them, and so on, it is a relatively small amount percentagewise.

As you develop an aircraft of this kind, it is absolutely essential to have a fire control system, or a bomb control system in it, when you put it into operation. The Bomb Toss Computer was believed to be, as I say, at the time the aircraft was going into production the system which would be used. As it turned out, before the end of that production, and before the aircraft actually got into use, another more advantageous system was available, and it was used.

The CHAIRMAN: The next item is on page 54, paragraph 83.

83. *Electrical relays found unsuitable.* In 1958 a contract was awarded to a United States firm for the supply of 3,400 electrical relays for the Royal Canadian Air Force at a cost of \$75,000. When put into service the relays were found to be unsatisfactory and some 3,100 were returned to the supplier for correction. Tests made on reworked relays disclosed that they were unsatisfactory and could not be successfully adapted to their intended use. It was subsequently learned that in attempting to produce a better product, the supplier had deviated from the configuration of the eight original prototype relays that had met all the Air Force requirements and on the strength of which the contract had been awarded.

In 1961 the supplier was requested to make a financial statement but he contended that while he was prepared to continue to assist in resolving the problem of putting the relays into effective use, he was under no

obligation to refund the purchase price. Legal action against the company was not taken as the eight original prototype relays had all been lost or discarded and thus there was no evidence to support the case.

Some 3,000 relays in the hands of the supplier were subsequently reported to Crown Assets Disposal Corporation for disposal and they were purchased by the supplier for a negotiated price of \$610.

Mr. HENDERSON: This is a case where 3,400 electrical relays were purchased from a United States supplier at a cost of \$75,000, following which 3,100 had to be returned for correction. Even after this, they were still unsatisfactory and could not be used. While they were still in the hands of the supplier who had refused to make any kind of financial adjustment, these relays were reported to Crown Assets Disposal Corporation for disposal, and the original United States supplier purchased the lot from them for \$610.

Mr. HUNTER: As far as defence production is concerned, we received an advice from the R.C.A.F. that the Sigma relay was an acceptable item as a result of the testing of eight sample relays. "Sigma" was the company name for proprietary design. The Department of Defence Production placed contracts with Sigma for 300 and 3,100, or a total of 3,400.

By the time the Department of National Defence advised us of the epidemic of failures, all relays had been received and paid for. Arrangements were made to rework certain batches, but they were still not satisfactory. Our legal branch attempted to obtain redress from Sigma but to no avail. No legal action could be taken as the only evidence namely the eight relays previously tested, were no longer available, having been disposed of by some means. I am not sure exactly how this was done.

The CHAIRMAN: Are there any questions?

Mr. SCHREYER: Mr. Chairman, I think it is sort of ironic, if not insulting, that Crown Assets Disposal Corporation arranged for the disposal of these units back to the original supplier who had made the error. I understand this is not a matter for the defence production officials, but the fee is almost insulting, a figure of \$600 as compared to the \$75,000.

The CHAIRMAN: It would appear that you gave the contract to a company which was not too reliable; I do not even know who it was. You returned them to the supplier for correction, but he failed to correct them. Were you dealing with a reliable firm?

Mr. HUNTER: We believed them to be reliable, Mr. Chairman, I will ask my officials.

The CHAIRMAN: Is this a United States firm?

Mr. HUNTER: Yes, it is.

Mr. BIGG: The word "unsatisfactory" is used here rather than "faulty". Is this another case where we, in fact, ordered the wrong design for certain uses and we found that it was not operationally effective?

Mr. S. I. COMACH (*Deputy Director, Electronics and Electrical Branch, Department of Defence Production*): The first eight which were tested were

quite satisfactory. Whether the company changed something in the relays afterwards, because this is their own design, we do not know, but when these relays were bought as a result and put into service there was a high failure epidemic and they had to be removed from service. We went back to them, asked them to repair them; they tried and they were still not satisfactory, so we had to go somewhere else to buy relays which met the requirements.

The CHAIRMAN: If they were not satisfactory, why did you pay them?

Mr. COMACH: They were all paid for by the time this was known. At the time this error was known the relays had been received and paid for.

The CHAIRMAN: Could I ask a blunt question? If you were running your own business, would you run it that way?

Mr. COMACH: Well, we did not know these relays would fail at the time they were paid for.

Mr. SCHREYER: Mr. Chairman, what was the time lapse between payment and the discovery of the rash of failures or outbreak of failures of this article?

Mr. COMACH: I cannot answer that question.

The CHAIRMAN: Would you like to have them find the answer to that for you? They can give you that, I am sure.

Mr. BIGG: I do not quite understand the second last paragraph of this where it says these original relays had all been lost or discarded; those are the ones that worked satisfactorily, apparently, and some of them wore out. However, this does not seem to be any excuse for the failure of the ones that subsequently did not stand up to the service test. I can understand how the eight got into the air, but I do not know why we did not use them, in other words.

Mr. COMACH: I think the answer to that is that the reference to these eight was to show that this was the only evidence we had that these relays were satisfactory.

Mr. BIGG: But they were changed?

Mr. COMACH: Then there was a change.

Mr. BIGG: Surely there is some guarantee. Is there no guarantee from the producer that they will in fact have a certain life? If I buy a light which is guaranteed to last ten hours but it does not last that long, I will take it back to the Safeway store and get my money back. The fact that eight of them did last for ten hours is no excuse for 3,000 others not lasting. Perhaps that example is oversimplified.

Mr. COMACH: All of this is referred to our legal people, and they advised that there could be no redress because we could not prove anything. Since the eight relays that we originally worked on were discarded, thrown away, or lost, there was no evidence we could use on which to back our claim.

Mr. SCHREYER: I would like to ask Mr. Hunter if it is the general practice to make payment in full to the supplier at the time of delivery, or is there a part payment, and a holdback for a period of time while the product is being used or proved?

Mr. HUNTER: This varies with certain items, Mr. Chairman, I would not like to try and say which items we do have a warranty on and which we do not. I am thinking of shipbuilding at the moment, we have a warranty as to workmanship and materials against failure of workmanship and materials.

However, in connection with these complicated electronic devices, I do not believe—and Mr. Comach confirms this—that when they have been tested by the military specifications test which are given to them, that they are accepted at that point. There would be times, I am sure, in cases of failure where we would go back and attempt to get the company to correct it. If we are successful, fine; otherwise it is governed by the legal contract we have with them. If we did not have a warranty that they would last for say a year or two years or so many hours, then we would have no case. I am told we did not have such a warranty in this case.

The CHAIRMAN: Mr. Schreyer, does that answer your question? I think your question is the same that is running through my mind. You paid for these things before you put them into service. Is that right?

Mr. COMACH: They were paid for on delivery.

The CHAIRMAN: They were paid for on delivery before you put them into service.

Mr. COMACH: That is right.

The CHAIRMAN: Then you put them into service and they were not satisfactory?

Mr. COMACH: Yes.

The CHAIRMAN: Then you had no redress. I do not buy a car like that.

Mr. NOBLE: That is right; I was just going to mention that. When you buy a car and you take it home and find something wrong with it, you take it back to the manufacturer and he will fix it up.

The CHAIRMAN: Why, certainly.

Mr. HENDERSON: Mr. Chairman, I would like to take the liberty at this point of just reading to you, without divulging the name or anything, the legal opinion which was rendered to the Department on this case with regard to having recourse. I have my own views on it; I think it would be very helpful to have yours. This is after considering the correspondence with the manufacturer and the circumstances of the case, and quite properly, as the Deputy Minister says, it was referred to their legal advisor who stated:

I have your memorandum concerning our case against this company. It is apparent that the company will not go any further in making good the relays it supplied under the above contract. The only remedy left to us would therefore be to bring an action against the company in the Massachusetts courts. This would be an expensive and time-consuming operation and one where the chances of success would be small. Our case would have to be based on the proposition that the relays supplied were of a different quality from the eight sample relays given to the R.C.A.F. for testing. As apparently these test relays were all lost or

discarded, we would have no evidence to support our case. In the circumstances, therefore, I do not think we would be justified in proceeding further with this claim.

Mr. BIGG: I cannot agree with that. I think it is a very dangerous precedent to let them get away with it just because they say you cannot prove your case. One would never go to court if there was not some doubt about the case, and for that matter there would not be anything for lawyers to do. I think it is up to our lawyers, in some cases at least, to make a test case and press it.

The CHAIRMAN: I think Mr. Schreyer's point about a holdback in a case like this, with a company outside of the country and so on, is well taken. This way of conducting arrangements does not seem like good business to me. I have not been convinced that it was. I do not know about the rest of the members.

Mr. HENDERSON: The fact that they could go in there and buy the whole lot back for \$600 from our own Crown Assets Disposal Corporation indicates that they were right on the beam, would it not?

Mr. NOBLE: Mr. Chairman, I think they are taking the Canadian government for Santa Claus from what I have heard here this afternoon.

Mr. LEBLANC: On the other hand, the department is not involved in anything because they got their legal advice from their own advisers who said it was useless to carry on in proceeding against the firm. So the defence production and national defence are not at fault there because before they let the case go they consulted their legal advisers.

Mr. BIGG: Well, then I suggest they use their legal advisers ahead of time to draw up a contract which will stand up in the courts.

The CHAIRMAN: That is pretty good advice.

Mr. SCHREYER: I have one final question. I would ask Mr. Hunter if there has been any change in the purchasing and payment policy by the department, or is anything contemplated in order to prevent a recurrence of something like this.

Mr. HUNTER: Well, Mr. Schreyer, this is an unusual case in that it is a United States supplier. Most of our buying is done in Canada from people with whom we do a continuous business, and it would certainly be in their interest to stand behind a case such as this. As far as I know, this may have been the only time we dealt with the Sigma Company, and they were not too worried about any future business with us.

The CHAIRMAN: You have not done any business with them since?

Mr. HUNTER: No, we have not.

Mr. BIGG: You sold them back their stuff for \$610.

The CHAIRMAN: Well, I would have thrown it in the river before I would have given it to them after the way they treated you.

Mr. HUNTER: They had been making an attempt to satisfy us. An attempt was made to remedy them, but when they reached a point where they could not, a deal was made with them. They were in their hands.

Mr. BIGG: The 3,100 were still in their hands and we allowed them to sort of keep them for \$600; represented by that little paper entry through Crown Assets.

Mr. HUNTER: I am not sure of all the details, but I could get them for you.

Mr. HENDERSON: That I believe is what happened, Mr. Bigg.

The CHAIRMAN: Well, Mr. Schreyer's question was, has your system of payment and holdback been changed so that this will not happen again. I did not get the complete answer.

Mr. HUNTER: I do not recall any specific change, but I will certainly look into how firms, who are more or less outside of our control as defence contracts, are dealt with, Mr. Chairman.

The CHAIRMAN: I think that completes the paragraph concerning the department of defence production. We have about five or ten minutes and then we will adjourn.

Mr. HENDERSON: I would like to mention for the information of the committee that there are two paragraphs in my 1965 Report which we shall be coming to, but I recognize that this meeting has been covering the department of national defence items, and therefore you may not be sufficiently familiar with them. The first item is the disposal of the surplus plant:

59. *Disposal of surplus plant.* In March 1964 the Minister of Defence Production was authorized to solicit and negotiate bids for the sale of three plants operated by Canadian Arsenals Limited. Bids were invited for each of the plants, the prospective purchaser being required to demonstrate a capability to manage manufacturing facilities involving military equipment, state his intention to retain the defined military explosive manufacturing capabilities and indicate his proposed use of the remaining plant capacity. Only the DeSalaberry plant was sold.

Only one bid was received for this plant which is located on 1,094 acres fronting on the St. Lawrence River near Valleyfield, Que. The original cost of the plant's land, buildings, machinery and equipment was \$18,210,000. Over the past six years its operations have resulted in losses averaging \$1.5 million annually, exclusive of any charge for depreciation of its buildings and equipment, and departmental officials estimated that future operating losses would be about \$1 million annually.

In May 1964 an independent appraiser advised Crown Assets Disposal Corporation that a fair market value of the property, exclusive of machinery and equipment, would be \$6,492,000, subject to the qualification that if any use of the property, other than the use to which it is now put, were to be contemplated by a purchaser, then the value would be but a fraction of the figure mentioned because most of the buildings are one-purpose structures. At the same time machinery and equipment in the plant were separately evaluated on an estimated recovery basis by officials of Canadian Arsenals Limited, Department of Defence Production and Crown Assets Disposal Corporation at \$1,405,000. This placed the total appraised fair market value of the land, buildings, machinery and equipment at \$7,897,000.

The company that had submitted the bid planned to use the facilities for manufacturing propellants and military high explosives and to develop suitable propellants for commercial ammunition. The company also proposed to investigate the commercial application of that part of the facilities designed for the production of nitrocellulose and nitric acid but did not contemplate that its foreseeable production would ever fully utilize the plant capacity available.

Taking into consideration the appraiser's qualification in valuing the property, the fact that the company could not utilize the full plant capacity and that a major portion of the plant could not be commercially utilized without substantial conversion, it was concluded that the fair market value of the land, buildings, machinery and equipment should be reduced from \$7,987,000 to \$4,137,000.

The company offered to purchase the land, buildings, machinery and equipment for \$1 million and to pay \$757,000 for the active inventory on the premises. It also indicated that, as a condition of sale, it was prepared to retain the skills and capabilities of the plant to produce defence supplies for a period of ten years without cost to the Crown and to retain items of equipment and special tooling essential to such production and to accord first priority to defence contracts. The company's offer was accepted and the sale completed on this basis on March 31, 1965.

If you wish a witness, Mr. Hunter is your Deputy Minister on that subject.

The next item is paragraph 60 which is the defence production revolving fund:

60. Defence Production Revolving Fund. Section 16 of the Defence Production Act, R.S., c.62, established the Defence Production Revolving Fund in an amount not to exceed \$100 million for the purpose of acquiring, storing, maintaining, and transporting stocks of materials or defence supplies, and providing working capital loans and advances to persons engaged in defence work. The section provides that no amount may be credited to the revolving fund to reimburse the fund for any loss sustained except pursuant to an appropriation by Parliament for that purpose. However, the Act is silent with respect to the treatment of any surplus.

The Financial Administration Act requires a surplus in a revolving fund to be "transferred from the revolving fund as revenue" and it also includes a provision similar to that appearing in the Defence Production Act that "no amount may be credited to the revolving fund to meet the deficiency except with the authority of Parliament". These directions with regard to treatment of surpluses and deficits seem to us to clearly indicate that Parliament wishes to be made aware of losses sustained through the operations of revolving funds and does not intend that any such losses be absorbed by a previously accumulated surplus.

In 1956 there was a surplus of \$470,000 in the Defence Production Revolving Fund and the Auditor General's Report for that year drew attention to this surplus because it was believed to be

the intent of Parliament that all revolving funds surrender surpluses at each year-end.

No action was taken with regard to the surplus reported in 1956 and by March 31, 1965 there was an accumulated surplus of \$1,818,000 in the Defence Production Revolving Fund comprising:

Interest received under aircraft sales contracts	\$ 1,111,000
Interest received on working capital advances	14,000
Net profit on strategic material inventory transactions:	
Disposal completed	730,000
In process of disposal	1,000
	<hr/>
	1,856,000
Less: Warehousing and other expenses relating to inventories still on hand	38,000
	<hr/>
	\$ 1,818,000
	<hr/>

In the absence of specific provisions in the Defence Production Act with respect to the treatment of surplus, departmental officers have taken the view that surplus, whether derived from interest earned or profit on a strategic material inventory that has been completely disposed of, should be retained in the Fund as protection against possible losses on future transactions.

We do not agree with this view. If income of the type above is to be left at the discretion of the department in a revolving fund to cover possible future losses in that fund, parliamentary control of public money is weakened because losses which should come under parliamentary scrutiny would not be adequately disclosed. Moreover, unless a surplus is transferred from a revolving fund to the Consolidated Revenue Fund, budgetary revenues are understated.

In the normal course, Mr. Chairman, we would handle these two paragraphs as we go through the 1965 Report. It could be that a witness is not necessary. I just thought I should mention those two paragraphs. You might care to leave them for now because we will pick them up as we go through the 1965 Report, but they concern this department.

The CHAIRMAN: Just before we adjourn, I first of all want to thank the witnesses who have been with us for the last two meetings. Unfortunately, we have not finished all the Department of National Defence paragraphs. We will have to let you know at a later date, Mr. Armstrong, when these will come up again as we have a schedule drawn up which calls for the Department of Finance here on Thursday at 11.00 a.m. All of the members of the committee have been supplied with a list of the paragraphs which we will be dealing with under the Department of Finance. I hope you will refer to that list and do as much homework on these paragraphs as possible to be ready for Thursday, and have your questions at hand for the Department of Finance.

Mr. BIGG: Mr. Chairman, with respect to paragraph 59, I wonder if somebody can tell us the profits of this company over the last twenty-five years. I think these facts would be relevant.

The CHAIRMAN: What page are you on?

Mr. BIGG: Page 31. It says that this company lost \$1.5 million annually in the last six years. I would like to know what the gross take was over the last thirty years.

Mr. HENDERSON: This was a crown company which was losing money, and this is averaged at the rate of \$1½ million over the past six years.

Mr. BIGG: Oh, it was a crown company?

Mr. HENDERSON: Yes, Canadian Arsenals. This is crown property. The real point of this question, Mr. Bigg, is the fact that there is over 1,000 acres of very valuable real estate.

Mr. BIGG: I have another point. I can see that this is one of these plants getting ready for the next war, and so on. Is there a clause in the agreement stating it must be ready to be turned back into a war plant?

Mr. HENDERSON: That was one of the conditions, but the title rests now in the purchaser.

The CHAIRMAN: If there are no further questions, the meeting is adjourned.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

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LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS
First Session—Twenty-seventh Parliament
1966

STANDING COMMITTEE
ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 16

THURSDAY, JUNE 16, 1966

Public Accounts, Volumes I, II and III (1964 and 1965)
Reports of the Auditor General to the House of Commons (1964 and 1965)

WITNESSES:

Mr. R. B. Bryce, Deputy Minister of Finance; Mr. A. M. Henderson,
Auditor General of Canada; Mr. G. R. Long, Assistant Auditor General;
and Mr. H. R. Balls, Comptroller of the Treasury.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,	*Mr. Gilbert,	Mr. Stafford,
Mr. Ballard,	Mr. Leblanc (<i>Laurier</i>),	Mr. Tardif,
Mr. Bigg,	Mr. McLean	Mr. Thomas (<i>Maison-</i>
Mr. Cameron	(<i>Charlotte</i>),	<i>neuve-Rosemont</i>),
(<i>High Park</i>),	Mr. Morison,	Mr. Thomas (<i>Middlesex</i>
Mr. Dionne,	Mr. Muir (<i>Lisgar</i>),	<i>West</i>),
Mr. Flemming,	Mr. Noble,	Mr. Tremblay,
Mr. Forbes,	Mr. Racine,	Mr. Tucker—(24).
Mr. Gendron,	Mr. Schreyer,	
	(Quorum 10)	

J. H. Bennett,

Acting Clerk of the Committee.

* Replaced Mr. Winch on June 15, 1966.

ORDER OF REFERENCE

WEDNESDAY, June 15, 1966.

Ordered,—That the name of Mr. Gilbert be substituted for that of Mr. Winch on the Standing Committee on Public Accounts.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House.

MINUTES OF PROCEEDINGS

THURSDAY, June 16, 1966.
(22)

The Standing Committee on Public Accounts met this day at 11.07 a.m. The Chairman, Mr. A. D. Hales presided.

Members present: Messrs. Baldwin, Bigg, Cameron (*High Park*), Forbes, Gendron, Hales, Leblanc (*Laurier*), Lefebvre, Muir (*Lisgar*), Noble, Schreyer, Thomas (*Maisonneuve-Rosemont*), Thomas (*Middlesex West*), Tucker (14).

Also present: Mr. Duquet, M.P.

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long, Assistant Auditor General; and Messrs. Cooke, Wanzell, Laroche, Buzza and McPhail of the Auditor General's staff; Mr. R. B. Bryce, Deputy Minister of Finance; Mr. H. R. Balls, Comptroller of the Treasury; and Messrs. Trudeau, Beckett, Johnson, D. H. Clark, Clemens and H. D. Clark of the Department of Finance.

The Chairman introduced Mr. R. B. Bryce, Deputy Minister of Finance and Mr. H. R. Balls, Comptroller of the Treasury to the Committee.

The Chairman tabled a letter from the Deputy Minister of National Revenue respecting *Uncollectable Debts*. (See Appendix "5" *Minutes of Proceedings and Evidence*, June 7, 1966.)

The Committee examined the Deputy Minister of Finance and the Comptroller of the Treasury on the following items from the Auditor General's Reports, 1964 and 1965:

Paragraph 55, 1965 Report	Effect of change in method of financing capital expenditures of the Canadian Broadcasting Corporation.
Paragraph 57, 1965 Report	Financing of the 1967 World Exhibition.
Paragraph 62, 1965 Report	Indirect compensation to chartered banks. (Also item 29 of 1965 Appendix 1 and follow-up report.)
Paragraph 50, 1964 Report	Government contributions not made to the Public Service Superannuation Account.
Paragraph 63, 1965 Report	Special Government contributions to superannuation accounts.
Paragraph 51, 1964 Report } Paragraph 64, 1965 Report }	Errors in Public Service Superannuation Account pension and contribution calculations. (Also item 24 of 1965 Appendix 1 and follow-up report).
Paragraph 52, 1964 Report	Deletion of debt without collection effort.

Paragraph 62, 1964 Report Town of Oromocto, N.B. (Also item 17 of 1965 Appendix 1 and follow-up report).

At 12.50 p.m. the Chairman adjourned the meeting to 3.30 p.m. this same day.

AFTERNOON SITTING

(23)

The Standing Committee on Public Accounts met this day at 3.45 p.m. The Chairman, Mr. A. D. Hales presided.

Members present: Messrs. Ballard, Bigg, Flemming, Forbes, Gendron, Hales, Leblanc (*Laurier*), Muir (*Lisgar*), Tardif, Thomas (*Middlesex West*), Tucker (11).

In attendance: (Same as at morning sitting).

The Chairman welcomed a student group from the Civil Service Commission and Mr. A. K. M. Faiz, Deputy Secretary, National Assembly of Pakistan to the Committee hearings.

The Committee resumed examination of Mr. R. B. Bryce, Deputy Minister of Finance and Mr. H. R. Balls, Comptroller of the Treasury covering the following items in the Auditor General's Reports: 1964 and 1965:

Paragraph 92(3), 1964 Report	Unpaid accounts carried forward to new fiscal year: (3) Department of Finance.
Paragraph 65, 1965 Report	Extra-statutory death benefit and pension payments.
Paragraph 118, 1964 Report	Comments on Assets and Liabilities. Accounts receivable. (Also item 28 of 1965 Appendix 1 and follow-up report). (<i>Memo-randum to follow</i>) (<i>See Minutes of Proceedings and Evidence, June 28, 1966, Appendix 7</i>)
Paragraph 167, 1965 Report	
Paragraph 119, 1964 Report	
Paragraph 168, 1965 Report	
Paragraph 170, 1965 Report	Cash on deposit in chartered banks.
Paragraph 172, 1965 Report	Sinking fund and other investments held for retirement of unmatured debt.
Paragraph 122, 1964 Report	Loans to the Town of Oromocto, N.B.
Paragraph 123, 1964 Report	Unamortized portion of actuarial deficiencies.
Paragraph 173, 1965 Report	Deferred charges—Unamortized portions of actuarial deficiencies.
Paragraph 124, 1964 Report	Cheque Adjustment Suspense.
Paragraph 174, 1965 Report	Suspense accounts.
Paragraph 125, 1964 Report	Public Service Superannuation Account. Canadian Forces Superannuation Account. Royal Canadian Mounted Police Superannuation Account.
Paragraph 175, 1965 Report	
Paragraph 176, 1965 Report	
Paragraph 177, 1965 Report	

Paragraph 170, 1964 Report	}	Royal Canadian Mint.
Paragraph 221, 1965 Report		
Paragraph 175, 1964 Report	}	The Custodian. (<i>Memorandum to follow</i>)
Paragraph 226, 1965 Report		
Paragraph 177, 1964 Report	}	Exchange Fund Account. (Also item 23 of 1965 Appendix 1 and follow-up report).
Paragraph 228, 1965 Report		
Paragraph 183, 1964 Report	}	Royal Canadian Mint stocks.
Paragraph 234, 1965 Report		

Appendix 1

- (19) Assistance to provinces by the Armed Forces in civil emergencies. (Also item 19 of follow-up report)
- (25) Pension increased by payment of two salaries. (Also item 25 of follow-up report)
- (26) Reciprocal transfer agreements for superannuation benefits. (Also item 26 of follow-up report)
- (27) Interest charges on loans to the National Capital Commission. (Also item 27 of follow-up report).

In accordance with directions contained in section 3, of the Committee's Ninth Report to the House on March 15, 1965, Mr. Balls presented the following:

Statement of Educational Leave Costs of Employees, 1963-64;

Listing of the Travelling Expenses of Employees in Excess of \$1000, 1964-65;

Listing of Payments to Suppliers and Contractors in Excess of \$100,000.

(Tabled as Exhibit X)

At 5.15 p.m. the meeting adjourned to the call of the Chair.

J. H. Bennett,
Acting Clerk of the Committee.

EVIDENCE

(Recorded and transcribed by electronic apparatus)

THURSDAY, June 16, 1966.

● (11.07 a.m.)

The CHAIRMAN: Gentlemen, I see a quorum.

We welcome before the Public Accounts Committee this morning, as witnesses, members of the Department of Finance, Mr. Balls, Comptroller of the Treasury, and Mr. Bryce, the Deputy Minister of Finance.

Before proceeding with items related to the Finance Department I would like to table the answers to questions which we asked of the Deputy Minister of National Revenue when he appeared before the Committee. I herewith table those answers.

Mr. FORBES: Will these be appended to the report?

The CHAIRMAN: Yes, Mr. Forbes.

The Auditor General's Report 1965, page 27, paragraph 55: As soon as you have located that we will ask Mr. Henderson for an introduction, and then we will ask Mr. Bryce to follow Mr. Henderson.

55. *Effect of change in method of financing capital expenditures of the Canadian Broadcasting Corporation.* Paragraph 187 in the Crown Corporations section of this Report includes comments regarding the operations of the Canadian Broadcasting Corporation.

As required by section 35(1) of the Broadcasting Act, 1958, c.22, the Canadian Broadcasting Corporation submits a capital budget and an operating budget for each financial year for approval by the Governor in Council on the recommendation of the responsible Minister and the Minister of Finance. Each year, from the proclamation of the Act until March 31, 1964, funds to meet each of these budgets have been provided by two separate grants under Appropriation Acts, both charged to budgetary expenditure.

The funds required by the Corporation to meet its capital expenditure during the year ended March 31, 1965 were provided by means of loans from the Government instead of grants. The relative vote of Appropriation Act No. 10, 1964 provided for:

Loans to the Canadian Broadcasting Corporation for the purpose of capital expenditures, subject to terms and conditions prescribed by the Governor in Council—\$14,250,000.

These loans, repayable by the Corporation in equal annual instalments over the next twenty years, with interest payable at rates of $5\frac{1}{4}\%$ and $5\frac{1}{8}\%$ per annum, are included in "Loans to and investments in Crown corporations" appearing as an asset item on the Statement of Assets and Liabilities of Canada (see paragraph 149). As a consequence, the Statement of Expenditure and Revenue of Canada was not prepared on a basis consistent with that of the preceding

year and the resultant deficit of \$37,965,000 shown on that Statement has been under-stated to the extent of the capital expenditures of \$14,250,000.

This procedure is a contradiction of the long-standing principle of the Department of Finance that only realizable or interest- or revenue-producing assets should be offset against the gross liabilities on the Statement of Assets and Liabilities with costs of capital works being charged to expenditure at the time of acquisition or construction. This subject is dealt with further in paragraph 167 under the Comments on Assets and Liabilities.

The Canadian Broadcasting Corporation is not in a position to repay either principal or interest on loans such as these unless it is placed in funds for the purpose. Consequently, the grant of \$85,869,000, provided by Appropriation Act No. 10, 1964 to cover the net operating requirements of the Corporation included an amount of \$374,000 to enable the Corporation to pay the interest on the loans. Receipt of this interest by the Department of Finance is recorded under the heading of "Non-tax Revenues—Return on Investments". This procedure has the effect of increasing the recorded amount of both the revenues and expenditures of Canada in violation of generally accepted accounting principles.

The 1965-66 Estimates tabled on March 22, 1965, but not yet approved by Parliament, include a grant of \$97,044,000 "in respect of the net operating amount required to discharge the responsibilities of the national broadcasting service". This amount includes the first principal repayment of \$710,000 and interest of \$1,170,000 on the loans made in 1964-65.

The wording of the Vote does not disclose this information nor is it provided in the Details of Services.

Mr. HENDERSON: Mr. Chairman, since the members of the Committee have the mimeographed sheet, "matters for consideration", to hand they will be able to follow the numbers. The listing is of a slightly different pattern to the one that we have been following, but I would suggest that we start, as the Chairman said, with the first item, although, in this case, it is a 1965 Report note.

In a number of cases, we can take two of the paragraphs together because they relate to the same subject. In the 1965 note you will find that we have updated what was stated in 1964.

Paragraph 55 describes the change in the method of financing the capital expenditures of the Canadian Broadcasting Corporation. As a consequence of this change having been made it was necessary for me to advise the House, as I state in the third paragraph, that the "annual statement of expenditure and revenue of Canada was not prepared on a basis consistent with that of the preceding year." The consequence of this was that the resultant overall deficit which, as you recall, was \$37,965,000 shown on that statement, was understated to the extent of the amount involved here, namely, 14½ million dollars.

As these loans cannot be repaid by this corporation unless it is placed in further funds, the loans do not, in my opinion, constitute an asset and I do not consider that they can possibly be described as such.

I am concerned that a change of this type should be made because it is, in my view, also a contradiction of the long-standing principle of the Department of Finance, that only the realizable or interest- or revenue-producing assets should be offset against the gross liabilities on the statement of assets and

liabilities, with costs of capital works being charged to expenditures at the time of acquisition or construction.

This is the explanation given by the department and it continues to be placed by it on its annual statement of assets and liabilities.

I should tell the members that I have made several enquiries of the department and also of the Treasury Board about the underlying reasons for this change, but to date I have not received any.

That is the only comment I would have on that one, Mr. Chairman.

The CHAIRMAN: Mr. Bryce, would you like to make an observation at this point.

Mr. R. B. BRYCE (*Deputy Minister of Finance*): Thank you, Mr. Chairman.

I think that what is at issue here is a policy that has been adopted by the Treasury Board and the government of using loans to finance a number of Crown companies and Crown agencies of a corporate nature where, for reasons of administration and management, or in order better to disclose the costs being incurred in the operation of such corporations or agencies, and, we feel, in order better to disclose to Parliament what certain operations are costing, the government finances such corporations or agencies by loans rather than by capital grants.

I explained the reasoning behind this at considerable length in 1964. The discussion is to be found at pages 760 to 769. I made a lengthy statement. I do not think it is necessary to recapitulate. It centered at that time on the grants to the National Capital Commission where really the same principles were at issue.

The CHAIRMAN: Excuse me, Mr. Bryce. You are referring to the printed copy of the minutes of our Public Accounts Committee.

Mr. BRYCE: Yes, the minutes.

The CHAIRMAN: The minutes of our meeting.

Mr. BRYCE: That is right; the 1964 proceedings of the Committee.

I must recognize that I have not succeeded in convincing the Auditor General that these principles outweigh—

Mr. HENDERSON: May I interject, Mr. Chairman? Nor did you convince the Committee.

Mr. BRYCE: I was going to come to that. I recognize that I have not convinced the Auditor General who feels still, I think—to use his word—this is unrealistic. I also do not think that I convinced the Committee in 1964. On the other hand, the House of Commons has, on several occasions, passed votes based on this principle, and therefore the House itself seems to have accepted it. Whether it has accepted it, having weighed fully the views of the Committee on the matter, is a question for the House and not for me.

I do not really think that there is anything more that is worthwhile adding, Mr. Chairman, at this juncture.

The CHAIRMAN: We will open the discussion. We will hear Mr. Baldwin, and then Mr. Muir.

Mr. BALDWIN: I wonder, Mr. Chairman, if Mr. Bryce has given any thought to the possibility of including, somewhere within the Public Accounts, so that

this will be reflected when they are presented to Parliament, a special kind of loan. As I think we suggested, and as Mr. Henderson pointed out, there are loans where you may have some reasonable hope of repayment, but there are other cases of loans where there is not too much reason to expect repayment.

Of course, with regard to the C.B.C. it might well be, since it is now alleged to have lost one of its most valuable assets—a program about which we do not want to introduce any discussion here—that its opportunities for repayment may be even less than they were before.

I just offer this as a suggestion. Is this a feasible idea, that you could introduce a special category of loan so that it would not necessarily show in the Public Accounts of the country as a possible realizable asset?

MR. HENDERSON: I think, Mr. Baldwin, you are perhaps thinking back on the Oromocto case, where there is a possibility of something coming, perhaps, in the years ahead, depending on the extent to which private money is invested in that town. I think Mr. Bryce covered that in his letter, and we will be making a reference to it today. However, in the case of the loan to the C.B.C., it is rather, if I may use the expression, like making a loan to your wife and calling it an asset. She cannot pay it back unless you give her the money to pay it back. This is precisely the situation we have here. As you will see, they charge interest on the loan. They take that into the revenue of the country, which, of course, is another item to which I must take exception; and, moreover, when they give the operating grant to the corporation they have been including sufficient money in that to help repay the loan—in the operating grant. That raises a point which interests us very much in terms of the present wording of the Broadcasting Act which differentiates between capital and income.

The merit of what they do is, of course, very clear. When you make a loan like this it has the effect of excluding it from budgetary expenditures, and consequently, as I have had to point out—as any auditor would point out—the deficit in this case was understated.

It is a requirement, as you know, from your experience with the Crown corporations and the Financial Administration Act that inconsistency in treatment such as this between the years requires a statement from the auditor.

It is perfectly true, however, as Mr. Bryce says, that notwithstanding the fact that this Committee, in the case of the National Capital Commission, made a recommendation supporting my views, the House of Commons acted differently. You have a situation in that respect whereby the government not only is not accepting a recommendation of this Committee, which it made in 1964, concerning the National Capital Commission loan, but is deliberately extending the practice which you condemned two years ago.

With all due respect to the members of the Committee, I suggest to you that perhaps when the estimates regarding making loans were before the Committee of Supply in the House not all of the members would have thought back on the precise wording of the 1964 report of this Committee. I am sure, had they done so, they would have spoken.

That brings up another question, and that is the amount of consideration that is brought to the estimates, something on which I know everyone present has views.

I would be very much interested in knowing what members of the Committee feel about this.

Mr. BALDWIN: I was not intending to suggest that this Committee can overlook a practice which, in this particular instance, seems to fly in the face of what is a statutory requirement. I am thinking on the general policy.

I agree with you in that I do not think that the particular issue was consciously before the members of the House of Commons in sufficient numbers to justify our saying, after due consideration and having in mind the pros and the cons, that the House of Commons passed the estimates in the face of the recommendation of the Public Accounts Committee. I do not think that is correct at all. However, assuming that this is going to become a question of policy and determination, I was wondering if there was any intermediate ground where, in order to satisfy accountants' requirements, there could be a separate class of loans established? Mind you, I meet my own argument by saying that it would look very peculiar if you had a special category of capital grants by way of loans; it would not look too well; but this is the sort of thing I have in mind. Is there any possibility that it could be worked out?

Mr. HENDERSON: I would be happy to give that some thought, but, offhand, if I lend money to somebody who cannot pay it back I do not have much of an asset.

You will remember that in, I think it was, 1958, or when the new Broadcasting Act came in, the Canadian Broadcasting Corporation owed the government something like \$27 million, and that all had to be written off at that time. Here, of course, they are being amortized a little more skilfully by giving them the capital in the operating grant to make payments. I would say that they are set up in a better way than they were in the years previous to 1958.

I do not think I have any more comments, Mr. Chairman, unless it is something that has—

The CHAIRMAN: Mr. Muir has a question; and perhaps Mr. Bryce would follow.

Mr. MUIR: Mr. Chairman, did I correctly understand Mr. Bryce that he said that this procedure was used for all Crown corporations? Is that right?

Mr. BRYCE: It is the procedure, sir, that has been followed in a number of these Crown companies, which include now the National Capital Commission, the CBC, this town of Oromocto, and, in effect, I suppose, the Expo Corporation will turn out to have been much the same.

An hon. MEMBER: But not the St. Lawrence Seaway? That was different.

Mr. BRYCE: No; that was different.

Mr. MUIR: This is treated differently from the CNR deficit?

Mr. BRYCE: Yes, sir.

Mr. MUIR: Why?

Mr. BRYCE: I am not sure that it is essentially any different, but the origin is so vastly different that I would hate to suggest that it was part of the same.

Mr. H. R. BALLS (*Department of Finance*): I think it is essentially the same as the treatment of the CNR deficit in that the amount that Parliament votes to reimburse the CNR for its deficit does include both operating and other debts.

Mr. HENDERSON: The Canadian National has its income. I think there is a differentiation here. We are speaking of a corporation which is not in that position.

Mr. MUIR: I think that unless there is something in the statutes that forbids you to call it a capital grant it is a matter of bookkeeping, because, as has been mentioned, if any money is loaned and you actually know it is not going to be repaid, you would have to stretch your imagination a little bit to call it a loan. I think it would be more realistic to call it a grant. Is there anything in the statutes which would not permit this to be called a grant?

Mr. BRYCE: First of all, I might speak to that, and then I would like to come back to Mr. Baldwin. I would like to deal with his proposal which we have, in fact, followed.

I do not know of anything in the statutes that would prevent these practices in any of these cases. We have ascertained that they are authorized by the statutes.

I think what the Auditor General is questioning is simply the accounting practice which is involved and the policy that is involved in financing them in this way.

Mr. MUIR: In other words, to some extent we are leaving the CBC with an open end expenditure.

Mr. BRYCE: I think that is not a full statement of the case.

The Auditor General has indicated that there may be a difference in some cases because they are getting revenue. Of course, the CBC is expected to get revenue, and is getting revenue—substantial revenue—from the advertising although of course, not enough to pay for its operations. I do not think anyone expected that it would pay the whole cost of its operations out of revenue.

We feel that the practice we are following here in principle is not different from the CNR which also, of course, earns revenues and a much higher proportion of its costs than the CBC does. We feel that by financing the CBC in this way we get a better reflection of what its costs are. It has to include the cost of interest in its account and the cost of paying off its loans, which is done out of its depreciation fund. We had this in mind in setting the terms of the loan.

In all these cases the corporate agencies involved are getting some revenue outside the government appropriation, notwithstanding what the Auditor General suggests. Part of the purpose is to encourage them to get such revenue and to reflect in their accounts, and to bring to Parliament's attention, the extent to which they fail by their revenue to meet the charges that are being made to them.

The Auditor General suggests that the only purpose of the government in doing this is to reduce its deficit. I feel this is not fair either to the present government or to the preceding government that followed this policy in respect of the National Capital Commission. There are, I suggest, other merits to the proposal, which I outlined at some length in 1964.

Mr. MUIR: You would agree though that actually government money is used to repay the loans?

Mr. BRYCE: Certainly.

Mr. MUIR: So, as I say, it is a matter of taking it out of one pocket and putting it in another. Can we not make some—

Mr. BRYCE: Yes, but it is different pockets. We would hope that Parliament would see that it is different pockets in its different years.

This will reduce our expenditure in the year in which the funds are advanced as a loan. It will increase them in future years, both in interest and for such sums as may be necessary for the repayment of the loan, in so far as the loans cannot be repaid out of the charges that are properly made by the corporations, either for depreciation as in the case of the CBC or for other purposes in the other corporate agencies which are financed in this way.

Mr. MUIR: Do you suggest that this is actually acting as a brake on the expenditures of the CBC?

Mr. BRYCE: Not on the expenditures, I suppose; but it enables Parliament and the CBC and the government to get a clearer idea, I suggest, about what it is really costing to operate the CBC and a more meaningful comparison between its revenues and its cost of operating.

Mr. MUIR: We are talking about pockets. It is true that it comes from one government pocket to another, but there is only one pocket it actually comes from and that is the pocket of the taxpayer, of course. These are the people we are interested in, and I know that you are just as interested as we are.

I think that in any dealing of this kind the taxpayer should be made well aware that the government is having to loan the CBC, or having to grant the CBC, if you want to call it that, so much money in order that they can operate to the extent that they are operating.

That is what I wanted to say.

Mr. BRYCE: Certainly, sir; and our purpose in all this is to disclose as fully as we can what is going on. I think that the practice that we are following here in these cases brings repeatedly to Parliament's attention the fact that—to take the case of the National Capital Commission—their revenues from rental are failing to meet the cost of the loans, or the investments—are failing to cover the investment that was put into the green belt, for example. This was the case most in point when this matter came up in 1964.

We think it is desirable that Parliament should have it drawn to its attention, and not that the whole thing should have been written off years ago and not brought currently before Parliament.

Mr. MUIR: This is the reason? You are showing this in order that it stands as a deficit against the corporation?

Mr. HENDERSON: I do not quite follow "standing as a deficit." It stands as an asset on the balance sheet of Canada.

Mr. MUIR: Are you speaking about the Corporation's books, Mr. Henderson?

Mr. HENDERSON: If I might add to what Mr. Bryce has said about the importance of getting accurate costs under the corporation, I would suggest that you do not need to go through this financing technique to achieve that.

Anybody studying the accounts of the CBC in past years will have noticed that they take in full depreciation and other charges which they do not pay but

which they properly account for on their statement. It would be quite easy to put in the carrying charges of this investment and a number of other costs, if it were desired to do that. You do not have to go through this elaborate loaning technique to achieve it.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, I wish to ask Mr. Bryce what sources of income the National Capital Commission has? In his answer he said they were in rentals. I am not sure what on, but certain rents.

Mr. BRYCE: This does not involve property, sir. It is chiefly the rentals of the land that it has acquired and is holding for use and leasing for use, subject to the restrictions put on it.

Mr. THOMAS (*Middlesex West*): But would that not be more or less insignificant as against the grants which the government has made?

Mr. BRYCE: Not insignificant, sir; it is a rising fraction, and we would expect that over the long term it will go on rising, and I would suggest that it should go on rising.

I think this was recognized in the discussion in the Committee in 1964. I think when the acquisition of the green belt was undertaken by the government—I have forgotten now whether it was Mr. St. Laurent's government or Mr. Diefenbaker's—I think there was general support for it in Parliament and elsewhere. It was felt that over the long term—a quite long term—it would prove to be a good investment. Certainly it is not yet. If it is going to be a good investment one of the considerations that has to be kept in mind is to get a suitable return on these lands.

Mr. THOMAS (*Middlesex West*): In the meantime, the land, of course, stands as an asset against the loans.

Mr. BRYCE: That is right. It is shown as an asset in the books of the Capital Commission.

Mr. THOMAS (*Middlesex West*): The operating costs would be the servicing charges against the loans, less any income which might be received, and the cost of carrying on.

Mr. Chairman, on the face of it—and I am sorry I came in a little late and did not hear Mr. Henderson's statement in full—I do not see any objection to this.

The CHAIRMAN: Mr. Thomas, the next item, No. 57, is somewhat along the same lines and the other ones here are related. I think we will pass on to those. The same principle is involved in two or three of them.

Mr. BALDWIN: Could Mr. Bryce indicate, if this were an ordinary commercial enterprise, unrelated to government, what assets of the Canadian Broadcasting Corporation would be represented by these loans—what additional security would these loans provide in the form of additional assets which the CBC would acquire?

Mr. BRYCE: These are loans made to the CBC for the acquisition of capital assets—buildings, equipment, and such, and the terms of the maturity of the loans are related to the nature of the assets.

Mr. THOMAS (*Middlesex West*): I wonder, Mr. Chairman, if we could have a brief outline of in what this \$14,250,000 was invested? Could we have a few of the representative items?

Mr. HENDERSON: I would be pleased to put that into focus for you, Mr. Chairman.

Mr. Thomas, I am referring to page 128, where there is a reference made to additions to capital assets. At March 31, 1965, the corporation was planning a consolidation of its facilities in major cities in Canada. The figure, as indicated there, as you will see in the table, is over \$127,000,000. On the balance sheet which will shortly be published I think you will find that figure is even larger. I do not know the present status of this consolidation but at all events these loans are being made, as I understand it, over a period of years to put them in funds for the purpose of spending the amount that they expect to require in achieving this consolidation. It was explained to me that that was the purpose. You will see the details on page 128.

During the year, for example, there were \$13,000,000 in additions to fixed assets, but their balance sheet carries the statement of this long-term cost. Doubtless, therefore, the loans over the years are to cover that.

Mr. THOMAS (*Middlesex West*): \$13,438,000 of the \$14½ millions were invested, we assume, in sound assets.

Mr. HENDERSON: Oh, yes. There is no question about that. In this particular case you see the technical equipment listed—the transmitters, the land for Place Radio-Canada, Montreal; that is the land for the Montreal consolidation.

Mr. THOMAS (*Middlesex West*): We can assume, too, that these assets would probably have a life of twenty years.

Mr. HENDERSON: Not all of the assets would last that long in this particular business, but they are effectively looked after, and depreciated in accordance with normal business practice at standard rates, and that sort of thing.

The CHAIRMAN: Mr. Baldwin, did you have another question?

Mr. BALDWIN: Yes. I was not quite finished with this. Mr. Bryce's answer gave me some indication of the nature of the assets, but I assume that, having in mind the generally accepted interpretation of the word "loan", these are not assets which have any net revenue-producing capacity, unless, of course, it was an extension of television into the Peace River country!

I am going back to the same point of distinction that Mr. Henderson was trying to make, that if the loans are made with some prospect that, at some time in the future, no matter how dim, or how far ahead that prospect might be—there is a hope that there will be some degree of repayment—then the use of the word "Loan" is justified, but if it is a grant disguised as a loan even though given to a Crown corporation which is engaged in some measure of commercial activity, I think I would be inclined to accept Mr. Henderson's version of it. This is my own view on it.

Mr. BALLS: I wonder, Mr. Chairman, if I could say a little bit about my understanding of the principle that is involved here?

We certainly are concerned to ensure that our statement of assets and liabilities is a realistic statement. We are equally concerned, however, to ensure that our statement of revenues and expenditures is realistic.

It is primarily with this in mind that we have taken the view that the appropriations which the government makes towards the deficit of the CBC should be realistic in that it includes all operating costs, plus the usage of capital assets; and there is one thing more, which would not be covered by the system suggested by Mr. Henderson, and that is the interest on the capital cost.

We feel that this system provides more specific accountability for the use of these assets—better managerial control. It provides a more accurate statement of the operating costs of the C.B.C. and a more accurate statement of the cost to the government of the annual operation of the C.B.C.

To try to reflect this accurately on the balance sheet, we have taken the step which Mr. Baldwin has suggested. Our statement of assets and liabilities now includes, and has for the last couple of years, a specific category called "Recovery Likely to Require Parliamentary Appropriation", and these loans to the Canadian Broadcasting Corporation and the advances to National Capital Commission are both under this category.

The Minister, in the Budget papers which he tabled at the time of his Budget speech last March, also included a further item for Expo and a further item for Oromocto. These will all be included under categories of this nature when the Public Accounts for this coming year are published.

There is one further point, Mr. Chairman, in regard to the accounting approach on this. May I read a statement which was published by the American Institute of Certified Public Accountants? This has to do with their accounting research and terminology bulletin, edition of 1961. They talk about assets here, and if I may I will read this:

"The word asset is not synonymous with, or limited to, property, but includes also that part of any cost or expense incurred which is properly carried forward upon a closing of books at a given date. Consistency with the definition of the balance sheet previously suggests that the term "asset" as used in balance sheets may be defined as follows: Something represented by a debit balance, that is or would be properly carried forward upon a closing of books of account according to the rules and principles of accounting, provided such debit balance is not in effect a negative balance applicable to a liability, on the basis that it represents either a property right or value acquired or an expenditure which has created a property right or is properly applicable to the future. Thus, plants, accounts receivable, inventory, and a deferred charge are all assets in balance sheet classification. The last named, speaking of the deferred charge, is not an asset in the popular sense but if it may be carried forward as a proper charge against future income, then in an accounting sense, and particularly in the balance sheet classification this is an asset."

I suggest to you, Mr. Chairman, that this provides a very close analogy to what we are trying to do. We are carrying forward these costs on our balance sheet so that the true operating costs of the C.B.C. will be reflected in our statement.

Mr. HENDERSON: If I might say, Mr. Chairman, I am familiar with the reference Mr. Balls has made, and I feel I should say to you that not everyone in my profession is in agreement with the interpretation he has placed on it.

This observation of mine here in regard to the C.B.C., as well as Expo, has attracted the attention of prominent members of the Canadian Institute of Chartered Accountants who, I can say unreservedly, have expressed their agreement with the point of view that I had placed before the House.

I would suggest now that perhaps we might refer to the financing of Expo, because it is not dissimilar.

The CHAIRMAN: All right.

Mr. HENDERSON: This is paragraph 57. This note explains how Expo completed drawing down, during the year 1965. Its total grants of \$40 million of which \$20 million was paid by Canada under section 11 of the federal Act.

57. *Financing of the 1967 World Exhibition.* Paragraph 189 in the Crown Corporations section of this Report includes comments on the operations of the Canadian Corporation for the 1967 World Exhibition during the past year.

As explained in that paragraph, the existing legislation provides that grants provided by Canada, the Province of Quebec and the City of Montreal must not exceed \$20 million, \$15 million and \$5 million, respectively, a total of \$40 million. The federal contribution is limited to \$20 million under section 11 of the Canadian Corporation for the 1967 World Exhibition Act.

The present revised overall plan approved by Canada and the Province of Quebec, as provided for under section 10 of the Act, estimates total costs of \$250,704,000 for the Exhibition with revenues, salvage and asset recoveries estimated at \$189,123,000. As this forward estimate indicates a net cost or deficit of \$61,581,000 at the close of the Exhibition, after allowing an estimated \$56,039,000 for the value of the assets remaining at that time, it follows that the Corporation's total requirement by way of grants is \$117,620,000 based on present estimates. Because of the limits imposed by the present legislation of Canada and the Province of Quebec as to the amount of the grants which may be made to the Corporation, changes will be required in this legislation before these additional substantial grants may be made. Unless these additional grants are provided, this total requirement (less \$40,000,000 already granted) will have been financed by loans and the Corporation will be burdened with the cost of additional interest and at the conclusion of the Fair will not have the cash resources necessary for payment of the indebtedness.

In addition to the federal contribution of \$20 million to the Corporation, subsection (5) of section 12 of this Act provides for temporary borrowings from the federal Government but the aggregate of all amounts loaned under this subsection and outstanding at any time shall not exceed \$1 million.

Subsections (1) to (4) of section 12 of the federal Act make provision for the Corporation to issue securities guaranteed by Canada and Quebec. Following the close of the year, the Corporation made arrangements to issue such securities and Canada proposes to purchase and hold them to the extent of \$80 million, as evidenced by Department of Finance Vote L26b of Supplementary Estimates (B) which were submitted to the House on June 22, 1965. Although this vote was not passed by Parliament before it recessed on June 30, 1965, seven-twelfths of the amount was approved by Appropriation Act No. 6, 1965 assented to on that date.

The restrictive sections of the Canadian Corporation of the 1967 World Exhibition Act, namely sections 11 and 12 outlined above, cause us to question

whether Parliament originally intended that Canada should purchase securities of the Corporation.

Since then Expo's development has been financed exclusively by loans made by the Federal government. These had totalled \$22 million by December 31, 1965, in respect of which Expo had issued notes payable to the Receiver General of Canada. These advances had been treated by the Department of Finance as assets.

Appropriation Act No. 2, 1966, which Parliament passed on March 9, 1966, authorized the purchase of these securities by the Minister of Finance to the extent of \$80 million.

In the 1966-67 estimates, which were tabled on February 14, this year, the government requested authority for a further \$110 million for the purchase, acquisition and holding by the Minister of Finance of additional securities to be issued by the Corporation under the Federal Act. As members know these estimates have not yet passed.

The point made here is, again, that these loans do not constitute assets. As is explained, Expo's total requirement, by way of grants was \$117,620,000 based on the figure existing six months ago when this report was issued. The estimate has since been increase to over \$143 million, as evidenced by an order in council on March 31, 1966, details of which are given by Expo in its annual report recently published.

Consequently, unless these grants are provided, this total requirement—that is to say, the new figure of \$143 million less the \$40 million already granted by the legislation—will have been financed by loans, and Expo will not only be burdened with the cost of servicing these loans, which carry current rates of interest, but at the end of the exhibition will not have the cash resources necessary to pay the indebtedness.

The figure of \$143 million odd consists of the anticipated deficit from the exhibition, which has been placed at \$82 million, plus the asset values estimated to be remaining at the close of the exhibition; and these are estimated at slightly over \$60 million. If it is to be assumed that these asset values are going to be realized in full—that is to say, that they will get one hundred cents on the dollar—then there will be only the deficit to be accounted for; that is to say, the \$82,600,000.

Since Canada contributed 50 per cent of the grants in the past, presumably it may be called upon to contribute 50 per cent in the future, which would mean that its liability, so far as the deficit is concerned, would amount to \$41,300,000 on the basis of the figures which we are using. If the \$20 million already paid is deducted it leaves a potential liability of \$21,300,000 for Canada to pick up, based on the present forward estimating.

This percentage basis on which the grants were made, namely 50 per cent by Canada, 37.5 per cent by Quebec and 12.5 per cent by Montreal, was not established by the federal Act, but was spelled out in an agreement executed January 18, 1963, by the three participants, Canada, Quebec and Montreal.

I might mention at this point that both my joint auditor, Mr. Tremblay, the provincial auditor of Quebec, and I—who are the joint auditors of this Corporation—have been recommending to its management over the past several years that they review this agreement for the purpose of tidying up, or clarifying, a

number of ambiguities in it, and that it do it now instead of waiting until the fair is over.

It is the view of the officers of the corporation—a view which I believe is shared by the officials of the Department of Finance—that the percentage basis on which the grants totalling \$40 million have been borne by the three participants in the past will apply to the future grants which are so obviously required. Because the wording of the federal act under section 12, and in fact, of the whole agreement between the three parties, appears to us to be limited to the \$40 million granted by these documents, we have been giving this matter very careful consideration. There is no provision in the federal act, of course, for the government of Canada to make grants to this corporation in addition to the \$20 million specifically authorized by section 11, by either directly or indirectly becoming responsible for unpaid liabilities of the corporation. It follows that there is no authority either for the three-party agreement to contain a provision under which the government would agree to assume liability to make payment for amounts greater in the aggregate than the \$20 million mentioned in the Act.

We are, therefore, of the opinion that whatever this three-party agreement may say, or may be claimed to imply, the government of Canada is not validly authorized at the present time to make payments exceeding in the aggregate \$20 million, even on the winding up of the corporation.

Perhaps Mr. Bryce and his associates would care to comment on this.

Mr. BALDWIN: Just a supplementary question. Mr. Henderson, have you discussed this with your legal advisers, by any chance?

Mr. HENDERSON: Yes, I have, Mr. Baldwin, and they have confirmed precisely the position I have outlined.

Mr. THOMAS (*Middlesex West*): In other words, Mr. Chairman, somebody has their neck stuck out a mile.

The CHAIRMAN: You cannot blame the Auditor General for warning us.

Mr. BALLS: Mr. Chairman, I am not in a position to speak at length to some of the points which the Auditor General has been covering. I was prepared to speak to the point which he dealt with in paragraph 57, the substance of which, I think, is summed up in the last paragraph which says "The restrictive sections of the Canadian Corporation for the 1967 World Exhibition Act, namely sections 11 and 12 outlined above, cause us to question whether Parliament originally intended that Canada should purchase securities of the Corporation." This seemed to be the point of audit criticism, and I think the point I would have to make in regard to this is that, while Parliament passed the Canadian World Exhibition Corporation Act, it also passed the loan item which approved a change in the arrangement. Parliament specifically authorized the purchase, acquisition and holding by the Minister of Finance of securities issued by the Canadian Corporation for the 1967 World Exhibition, pursuant to subsection (1) of section 12 of the Canadian Corporation for the 1967 World Exhibition Act, and subsequently to dispose of these securities, and they appropriated \$80 million for this purpose.

My point here, in answer to this comment, is simply that this is a matter on which Parliament surely can see fit to alter its original intent, and it has done so.

In regard to the accounting, Mr. Chairman, as we indicated in regard to the previous item this is being recorded in our accounts as loans the recovery of which is likely to require appropriation. We are trying to reflect the fact that this may not be a completely self-sustaining operation.

Mr. BRYCE: Perhaps I could just make a brief comment—without having the papers here—on the other issues which the Auditor General has raised—and, let me say, I think, quite properly raised—in terms of substance.

There is no doubt in my mind that Parliament will have to vote funds to pay a substantial deficit on Expo. I think that this is manifest already. We cannot tell what it will be, because we do not know what the revenues for Expo will be, and we do not know what we are going to get from the disposition of the assets which the Expo Corporation will have left over. There will be some rather difficult bargaining involved in the disposition of these assets, as is evident if you think of their nature.

Therefore, while we can be reasonably clear that there will be a substantial deficit—and I think that all those concerned, including Parliament, have entered upon this enterprise recognizing that it will be a costly one—it is too early yet to set a limit on the terms.

As regards our authority to do these various things, I cannot site the sections of the Act and such at this stage. All I can say is that we in the Department of Finance have been most anxious throughout to be quite clear about our authority to enter into agreements on this and to buy these securities. We put this item into the estimates last year and sought Parliament's approval of it to remove any uncertainty about the thing, although, as I recall, our lawyers felt that technically we could find authority to buy these bonds. However, I certainly felt, and the Minister at the time felt, that it was better to put this item before Parliament and have its clear approval of our purchasing these securities, and for the reasons that Mr. Henderson has indicated.

This is obviously an operation where there is going to be a substantial amount eventually to be shared among these who are undertaking the project, and it will come about essentially in meeting the liabilities of the Expo Corporation, most of which, of course, will be in the form of these bonds.

Mr. CAMERON (*High Park*): I would just like to ask Mr. Bryce one question. On the purchase of these securities, are they being taken over by the city of Montreal, the province of Quebec and the Dominion of Canada in the same proportion?

Mr. BRYCE: No, sir. We are buying the bonds.

Mr. CAMERON (*High Park*): What is going to happen on the division of the fund, having regard to the charge that there will be against it on the loan.

Mr. BRYCE: The agreement to which the Auditor General referred provides for the sharing of the liabilities, which would include the liabilities on these bonds. In addition, the bonds are guaranteed by the province of Quebec as well as by Parliament. The authority for the guaranteeing of the bonds was given in the original legislation.

Mr. CAMERON (*High Park*): They may be better security than they otherwise would, but usually the person who holds the security is the first charge on the funds which are available to discharge that liability. If you do not buy them in the same proportion the one who has the most, assuming there is a big loss, will take the biggest loss.

Mr. BRYCE: It was agreed between the government of Quebec and the Government of Canada that we would buy the bonds through this period.

There was a possibility, of course, and I am not sure that it was not envisaged originally that it would be followed, that we would issue the bonds as a guaranteed obligation of the province and the government of Canada. This matter arose before I was back in the Department of Finance.

We came to the conclusion, however, that the whole operation would be cheaper if we did not try to market these guaranteed bonds. They do not fit into any of the well recognized categories. They are jointly guaranteed by the province of Quebec and ourselves—

Mr. CAMERON (*High Park*): No one here would want to buy them on basis of the evidence so far.

Mr. BRYCE: There is no doubt that they are guaranteed by Canada as well as by Quebec, and the guarantee is quite clear. Guaranteed issues normally sell at a somewhat higher yield than directors use, and we thought we would ultimately get the money more cheaply by doing it this way.

Mr. SCHREYER: Mr. Chairman, my question is actually to that point. I take it that Mr. Henderson is questioning rather more the legal aspect than the financial one. If the Dominion of Canada is to guarantee these issues, at least in part, I do not see anything too much wrong with it proceeding to purchase the issue.

The CHAIRMAN: You have one more question Mr. Schreyer?

Mr. SCHREYER: It is clear in the report where the authority comes from for the Dominion of Canada to guarantee the issuing of these securities.

What specific authority is there at the present time for the taking up, or the purchasing, of these securities by the Dominion government?

Mr. HENDERSON: By parliament, Mr. Schreyer. The estimates item referred to was passed subsequent to this report being issued.

I questioned whether Parliament originally intended that Canada should purchase securities of the corporation, but at the time the report was issued this particular supplementary estimate had not been passed. It has since been passed in the amount of \$80 million of which, as I said, the corporation has been given \$22 million in exchange for notes which it has issued, guaranteed, as Mr. Bryce explained, by the province and by Canada, and then Canada has bought them. They have been made payable to the Receiver General of Canada. I am not questioning any aspects of that.

I wondered, when I wrote the report, whether Parliament originally intended that Canada should purchase securities of the corporation. That was my opinion, and it is still my opinion, notwithstanding the fact that, shortly before the Easter recess, I think, very late at night, you passed the \$80 million in a hurry.

Mr. BALDWIN: As a taxpayer with a weak sense of humour, I might make a suggestion to close this on the same note as I opened it, and that is to try to work out some new form of terminology which would cover this loan which is really a grant which is going to be repaid by the taxpayers. If you put the first two letters of the one with the last three of the other you would get the word "groan" which seems to fit!

The CHAIRMAN: This does bring to our attention, I think, something which we should put in our report. We have many items brought to our attention here which hinge on legislation and pending legislation and amendments which are going to come before the House.

I would think that it would be good, sound logic for this Committee, before we close off, to list the pieces of legislation which are involved in our discussions with the Auditor General so that when they come before the House we will recall them and know what they are and be prepared to speak on them.

This is one which brings up the definition of "loan" or "grant". We should have a good debate in the House on it, as it is apparent that we have a division of opinion here between the Committee and the Auditor General and the Department of Finance. I do not think we are going to settle that division of opinion here this morning, because it is a legal and technical one, but we have had a good opportunity to air it, and I appreciate having had that opportunity.

We will move along to No. 62, page 33.

62. *Indirect compensation to chartered banks.* In our 1962 and 1963 Reports reference was made to the practice of the Government of maintaining large balances on deposit with the chartered banks, receiving interest only on the balances in excess of an aggregate of \$100 million. The view was expressed that this constituted indirect compensation to the chartered banks for services provided to the Crown and was contrary to section 93(1) of the Bank Act.

The Public Accounts Committee in its Fourth Report 1963 advised the House that it was in agreement with the view of the Auditor General, and in its Sixth Report 1964 it reiterated its belief that, if the bank are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1965 (see Appendix 1, item 29).

At the 1965 session of Parliament, Bill C-102, entitled "An Act respecting Banks and Banking", was given first and second readings and referred to the Standing Committee on Finance, Trade and Economic Affairs. Clause 93 of this Bill reads as follows:

93. (1) No bank shall make a charge for cashing a cheque or other instrument drawn on the Receiver General or on his account in the Bank of Canada or in any other bank, or for cashing any other instrument issued as authority for the payment of money out of the Consolidated Revenue Fund, or in respect of any cheque or other instrument drawn in favour of the Receiver General the Government of Canada or any department thereof or any public officer in his capacity as such, and tendered for deposit to the credit of the Receiver General.

(2) Nothing in subsection (1) shall be construed to prohibit any arrangement between the Government of Canada and the bank concerning interest to be paid on any or all deposits of the Government of Canada with the bank.

(3) No bank shall directly or indirectly charge or receive any sum for the keeping of an account unless the charge is made by express agreement between the bank and the customer.

It should be noted that subsection (2) of clause 93 of this Bill is designed to permit the continuation of the practice of compensating the banks indirectly for services provided to the Crown by keeping non-interest bearing funds (currently an aggregate of \$100 million) on deposit with them.

Mr. HENDERSON: This deals with the practice of the government of maintaining large balances on deposit with the chartered banks, but receiving interest only on balances in excess of an aggregate of \$100 million.

I expressed the view in my 1962 and 1963 reports that this constituted indirect compensation to the chartered banks for services provided to the Crown, and was contrary to section 93(1) of the Bank Act.

My view was discussed at some length in the Committee in 1963 and 1964, when the Committee, in its sixth report, reiterated its belief that if the banks were to be compensated for services provided to the Crown then consideration should be given to the most equitable manner in which this might be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act.

You will recall that this is item 29 of the 1966 follow-up report. This matter is mentioned here to explain that in the third paragraph—and you will see it in the third paragraph on page 34—that in the 1965 session of parliament, as you may recall, Bill C-102 was given first and second readings and referred to the Standing Committee on Finance, Trade and Economic Affairs. I quote it, and you will see that subsection (2) of clause 93 was written in, clearly to permit the continuation of the practice of compensating the banks indirectly for services provided to the Crown by keeping these non-interest bearing funds on deposit with them.

I felt it necessary to draw the manner in which it was proposed to remedy this matter to the attention of the House. We know that a new Bank Act is in course of preparation and will shortly be tabled, but in the meantime we do not know whether or not the same treatment will be given to the disposition of this matter as was given last time. Perhaps Mr. Bryce would care to enlighten the members on this.

The CHAIRMAN: Gentlemen, this is a case where the Crown has on deposit with the chartered banks an average of \$100 million on which the Crown receives no interest. Is that right?

Mr. HENDERSON: That is right

The CHAIRMAN: Mr. Bryce, do you want to speak to that?

Mr. BRYCE: The substance of this was discussed earlier, sir, and we agreed, I think, to include something in the Bank Act to make more abundantly clear that the arrangement we had would not be subject to subsection (1) of section

93, or whatever it was, in the present Bank Act. To the best of my knowledge we would plan to include a provision like this in the bill to revise the Bank Act.

The CHAIRMAN: All right. We will proceed. Paragraph 63 on the same page.

63. *Special Government contributions to superannuation accounts.* Reference was made in paragraph 50 of last year's Report to the deficiency in the Public Service Superannuation Account which resulted when no special credits were made to the Account in respect of salary increases granted to civil service classes in four consecutive years as the result of cyclical salary reviews, although subsection (2) of section 32 of the Public Service Superannuation Act, 1952-53, c.47, then read:

There shall be credited to the Superannuation Account, as soon as possible following the authorization of any salary increase of general application to the Public Service, such amount as, in the opinion of the Minister, is necessary to provide for the increase in the cost to Her Majesty in right of Canada of the benefits payable under this Act, as a result of such salary increase.

We were informed that the reason no such special credits were made to the Account as required by section 32 was that the salary increases granted to the four categories into which the service had been divided for salary review purposes were not regarded as increases "of general application" for the purposes of the statute.

On March 6, 1964 the Minister of Finance informed the House of Commons of a general policy for dealing with the deficiencies in the various superannuation accounts. It was proposed to write off deficiencies existing prior to the commencement of the 1963-64 fiscal year to net debt and to amortize subsequent deficiencies arising from salary increases, over a five-year period commencing in the year in which the increases are authorized. In accordance with this policy, and pursuant to department of Finance Vote 68e of the final Supplementary Estimates for 1963-64, recorded deficiencies of \$524,849,000 in the Canadian Forces Superannuation Account and \$6,333,000 in the Royal Canadian Mounted Police Superannuation Account were written off to net debt. Similar action was not taken at that time with respect to a recorded deficiency of \$276,661,000 as at December 31, 1957 in the Public Service Superannuation Account.

When the quinquennial actuarial report on the Public Service Superannuation Account as of December 31, 1962 was tabled on November 12, 1964, the Minister stated that authority would be sought from Parliament later in the year to write off to net debt an additional deficiency of \$110,536,000 revealed by the report, plus interest (as well as the previously existing deficiency of \$276,661,000) and to charge the deficiencies arising from pay increases authorized during the fiscal years 1963-64 and 1964-65 against expenditure over a five-year period commencing with 1964-65.

It was calculated by the Department of Insurance that the deficiency in the Superannuation Account as at December 31, 1962 plus interest to December 31, 1964 would amount to \$119,556,000 and that the additional deficiency arising from pay increases authorized in 1963-64, with interest to December 31, 1964, would amount to \$30,506,000.

To carry out the new policy, three Department of Finance votes were included in the Supplementary Estimates (D), 1964-65. Vote 24d authorized the write-off to net debt of \$396,217,000 representing the unamortized actuarial deficiency of \$276,661,000 in the Public Service Superannuation Account as at December 31, 1957 and the deficiency of \$119,556,000 as at December 31, 1962, including interest to December 31, 1964 (see paragraph 175). Vote 16d provided for the initial contribution to the Public Service Superannuation Account to amortize deficiencies resulting from the authorization of salary increases during the 1963-64 and 1964-65 fiscal years "each one of which was applicable to at least one-quarter of one per cent" of the contributors under the Act. A dollar vote (18d) was included to amend the Public Service Superannuation Act, the Canadian Forces Superannuation Act and the Royal Canadian Mounted Police Superannuation Act to require that the deficiency resulting from any salary increase "applicable to at least one per cent" of the persons covered by the respective Acts be amortized over a five-year period commencing in the year in which the increase is authorized. This vote was withdrawn in Committee of Supply and its provisions were incorporated in Chapter 5, 1965, "An Act to amend certain Acts respecting the superannuation of persons employed in the Public Service, members of the Canadian Forces and members of the Royal Canadian Mounted Police", assented to on June 2, 1965.

The amendments to the Canadian Forces Superannuation Act and the Royal Canadian Mounted Police Superannuation Act were made effective from January 1, 1965, thus providing statutory authority to charge one-fifth of the deficiencies in those accounts arising from pay increases in 1964-65 to expenditure of the year.

Subsection (2) of section 32 of the Public Service Superannuation Act, as amended by Chapter 5, 1965, now reads:

There shall be credited to the Superannuation Account, following the authorization of any salary increase applicable to at least one per cent of those persons employed in the Public Service who are contributors, in five annual instalments commencing in the fiscal year in which the salary increase is authorized, such amount as, in the opinion of the Minister, is necessary to provide for the increase in the cost to Her Majesty of the benefits payable under this Act, as a result of such salary increase.

Department of Finance Vote 18 of the Main Estimates, 1965-66, makes provision for the second annual contribution to the Public Service Superannuation Account to amortize the deficiency resulting from salary increases authorized during 1963-64 and 1964-65. Unlike Vote 16d of the 1964-65 Estimates and subsection (2) of section 32 of the Public Service Superannuation Act which refer, respectively, to "one-quarter of one per cent of the contributors" under the Act and "at least one per cent of those persons employed in the Public Service who are contributors", this vote reads:

Government's contribution to the Superannuation Account as a result of the authorization of salary increases, each one of which was applicable to at least that percent of the contributors under the Public Service Superannuation Act, during the 1963-64 and 1964-65 fiscal years, as may be prescribed by the Treasury Board, in such amount as, in the opinion of the Minister of Finance, is necessary to provide for one-fifth of

the cost to Her Majesty in right of Canada for the benefits payable under that Act as a result of the said salary increases—\$10,000,000.

The Treasury Board, by T.B. 641422 of May 27, 1965, prescribed one-quarter of one per cent as the percentage of contributors required for purposes of Vote 18. This was to take care of a situation where salary increases were not authorized to all members of a large group at the same time within the fiscal year, and while no single increase applied to as many as one per cent of the contributors under the Act, in total they did.

Although the three superannuation Acts, as amended, authorize credits to the superannuation accounts in five equal annual instalments, the full amount of the actuarial deficiency in each account was credited during 1964-65 and an offsetting entry was made to a deferred charge account. The deferred charge was then reduced by debiting expenditure with the one-fifth authorized for the year, leaving four-fifths to be shown as "unamortized portions of actuarial deficiencies" on the asset side of the Statement of Assets and Liabilities until charged to expenditure in subsequent years.

By immediately crediting the superannuation accounts with the full amount of existing deficiencies, additional deficiencies resulting from loss of interest were avoided, but the practice is not consistent with the recent amendments to the governing statutes.

The following is a summary of the transactions in the deferred charge accounts during 1964-65 and the position at the year-end:

Balance, April 1, 1964, representing the unamortized portion of the actuarial deficiency in the Public Service Superannuation Account as at December 31, 1957	\$ 276,661,000
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Add:

Public Service Superannuation Account

Deficiency as at December 31, 1962 with interest to December 31, 1964	\$ 119,556,000
Deficiency arising from pay increases authorized in 1963-64 with interest to December 31, 1964	30,506,000
Deficiency arising from pay increases authorized in 1964-65	19,395,000
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	169,457,000

Canadian Forces Superannuation Account

Deficiency arising from pay increases authorized in 1964-65	67,202,000
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Royal Canadian Mounted Police Superannuation Account

Deficiency arising from pay increases authorized in 1964-65	5,192,000
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241,851,000

518,512,000

Deduct:

Written off to net debt (Vote 24d)

Public Service Superannuation Account

Deficiency as at December 31, 1957 276,661,000

Deficiency as at December 31, 1962 with
interest to December 31, 1964 119,556,000

396,217,000

Charged to budgetary expenditure

One-fifth of the deficiencies arising from pay
increases authorized subsequent to April1, 1963 Public Service Superannuation
Account (Vote 16d) 9,980,200Canadian Forces Superannuation Account
(Statutory) 13,440,400Royal Canadian Mounted Police Super-
annuation Account (Statutory) 1,038,400

24,459,000

420,676,000

Balance, March 31, 1965, representing the unamortized
portions of the actuarial deficiencies in the super-
annuation accounts

\$ 97,836,000

Mr. HENDERSON: Here we might take paragraph 50 of the 1964 report, as well as paragraph 63 of the 1965 one. We might confine ourselves, however, to paragraph 63 because it does update the situation.

I might say at this point that whereas this has been the subject of criticism for a number of years in my report, it has only been in the last few years that the recommendations made, all of which have been supported by this Committee, have been put into effect. Nevertheless, the circumstances surrounding the operation of the Public Service Superannuation account and its companion ones, which are known as the Canadian Forces one and the Royal Canadian Mounted Police one, are complex, and they do require pretty close study.

About the only matter, Mr. Chairman, I bring to the attention of the members at this time, on which the witnesses today might be able to throw some light, relates to Bill C-193, introduced in the House last Monday week by the Hon. Mr. Benson. He said, when referring to a number of the amendments included in the Bill—and I am quoting from his statement—that some of these relate to proposals of the Public Accounts Committee. As the members are aware, there are included in the forty recommendations of this Committee, which have not yet been implemented, four dealing with the various superannuation accounts. These were referred to in our follow-up report and I might just mention them to you. There was No. 20 which was pension awards effective at an early age, which is the deferred pension matter that we were discussing with Mr. Armstrong the other day; No. 22, overlapping of pension benefits; No. 25, pension increased by payment of two salaries; and No. 26, reciprocal transfer agreements to superannuation benefits.

As we understand it in the Audit Office, No. 22, overlapping of pension benefits, and No. 26, about the reciprocal transfer payments, have been taken care of by Bill C-193.

Perhaps Mr. Bryce could tell us if the other two were also provided and could identify them for us in the Bill.

Mr. BALLS: Mr. Chairman, there certainly have been a number of things taken care of in the Bill. The numbering which Mr. Henderson is using, I am afraid, does not help me to identify them. If I could have the paragraph numbers I could deal with them now, or we could deal with them as we come to the paragraphs of the Auditor General's Report.

Mr. HENDERSON: These are from Appendix 1 of the 1965 report, Mr. Balls. You will find them starting at page 212, Nos. 20, 22, 25 and 26.

Mr. BALLS: I have it here. With regard to item 25 of Appendix I, this has been covered, Mr. Chairman, in clause 19(4) of Bill C-193. The clause will provide, amongst other things, that the governor in council would have power to determine the amount that should be deemed to be the salary of a person for the purpose of the Public Service Superannuation Act.

In regard to item 26, this is covered by clause 18 (2) of Bill C-193.

There was a third point which Mr. Henderson mentioned, and that arises out of the comments on in paragraph 63. I think, at the bottom of page 38, there is a reference "... By immediately crediting the Superannuation Account with the full amount of existing deficiencies additional deficiencies resulting from loss of interest were avoided, but the practice is not consistent with the recent amendments of the governing statutes."

The point that the Auditor General is making here is that we set up the full amount of the actuarial deficiencies in the account and proceeded to amortize the unamortized portion over a period of five years.

Mr. Henderson raised the point very validly that there was no clear authority that the full amount of that liability should be added to the account immediately.

This is being dealt with in Bill C-193, and you will find that in section 21 the appropriate authority is being obtained in regard to the Public Service Superannuation Act, in clause 52 in regard to the Canadian Forces superannuation Act, and in clause 74 in regard to the Royal Canadian Mounted Police Superannuation Act.

The CHAIRMAN: This is the Bill that has been referred to the joint committee?

Mr. BALLS: That is the Bill that is before the joint committee on the Public Service of Canada.

Mr. HENDERSON: That just leaves one of the four, does it, on which there is no action?

Mr. BALLS: No; I thought we had dealt with all of your points.

Mr. HENDERSON: The pension awards effective at an early age, number 20—the deferred pension one? You did not mention that one.

Mr. BALLS: This was not on the list of the agenda that we received and I did not deal with this point.

Mr. BALDWIN: Mr. Chairman, this is the point I was going to make. You are getting into pretty involved territory. I have some memory of it.

I wonder if the department, through Mr. Balls or Mr. Bryce, would give to us a memorandum covering these particular items which have been raised and the answers to them, indicating the particular section and the extent to which they meet the objections which the Committee did raise originally and which Mr. Henderson has repeated? If we had this it might save us time today, and it would constitute a simple answer. Would this be acceptable?

Mr. BALLS: Indeed.

The CHAIRMAN: We will move on.

Mr. HENDERSON: Shall we move on, Mr. Chairman?

Mr. BALLS: Could I have just one word, Mr. Chairman, with regard to the item 20?

I understand this is a Department of National Defence item.

Mr. HENDERSON: Yes, that is true; but so was the other one which you fixed up, No. 22. We thought perhaps we might get them all settled.

51. *Errors in Public Service Superannuation Account pension and contribution calculations.* Comments under this heading have appeared in our Reports to the House for the past three fiscal years. The Public Accounts Committee in its Fourth Report 1963 noted with concern the high incidence of error in the superannuation accounts, and in its Sixth Report 1964 (see Appendix 1, item 33) expressed concern that this matter is taking so long to be corrected and requested the Auditor general to keep the Committee fully informed.

The responsibility for the operation of the Superannuation Branch was transferred in December 1963 from the general direction of the Secretary of the Treasury Board to the Comptroller of the Treasury, the Director of Pensions and Social Insurance of the Department of Finance retaining responsibility for dealing with cases requiring legal opinions and decisions regarding superannuation policy.

On assuming this responsibility, the Comptroller of the Treasury appointed a task force to study the organizational structure of the Branch and review its existing system and procedures in depth to determine what steps should be taken toward eliminating the errors occurring in the pension and contribution calculations. He advises that following receipt of the task force's report, a series of staff meetings were held to discuss its recommendations and that a number of significant measures designed to remedy this situation have been or are in the course of being introduced.

There has been some reduction in the number of errors we have had to bring to the attention of the officers of the Branch during the past year. However, in our opinion, the incidence of error continues to be higher than it should be in an administrative operation of this type.

A reference was made in paragraph 53 of last year's Report to the lack of verification of the correctness of contributions remitted to the Central Pay Division in respect of employees of Crown corporations. We have been advised that action is being taken to correct this situation.

64. *Errors in Public Service Superannuation Account pension and contribution calculations.* Comments under this heading have appeared in our Reports to the House for the past four years. The Public Accounts Committee in its Fourth Report 1963 noted its concern over the high incidence of error in the superannuation accounts and in its Sixth Report 1964 expressed its further concern that the matter was taking so long to be corrected. The Committee requested the Auditor General to keep it fully informed as to the progress being made in this direction (see Appendix 1, item 24).

While our test examinations in 1964-65 indicated a reduction in the number of errors in current calculations, they continued to disclose numerous errors made in previous years. We directed the attention of the Superannuation Branch to 80 cases of non-payment or underpayment of amounts due under Vote 667 of Appropriation Act No. 5, 1958 and the Public Service Pension Adjustment Act, 1959, c. 32, amounting to \$22,700 up to February 28, 1965 and to two overpayments. A detailed check by the Branch revealed 245 additional underpayments amounting to \$30,900 to July 31, 1965 and 13 overpayments amounting to \$1,200 to September 30, 1965.

During the year the Superannuation Branch established a special review unit to check in detail the files of all contributors between the ages of 55 and 63 in order to locate any financial discrepancies before the contributors leave the service. There are some 25,000 contributors in this age group. As those over 63 will be retiring in the near future, the Branch proposes to delay checking their files until the retirement dates.

The number of contributors to the Public Service Superannuation Account is large and the numerous amendments to the Act and Regulations over the years have presented administrative problems. However, clerical work of this type is a necessary part of personnel administration in all large organizations. Its accuracy is of particular importance to the individual contributor to the Superannuation Account who should not have to accept the possibility, after retirement, of a retroactive adjustment of his pension caused by mistakes or inadequate departmental procedures. Prompt and effective steps should be taken to further improve the quality of the work and to identify and correct the numerous errors made in previous years.

The multiplicity of errors which has been the subject of comment by us in recent years had its origin in a directive dated June 11, 1957 from the then Minister of Finance which established a division of responsibility between the Superannuation Branch and the Comptroller of the Treasury. Under this division the Comptroller's pre-audit of benefit payments was discontinued and the Superannuation Branch was relieved of all responsibility for the correctness of superannuation contribution deductions from pay. Accordingly, when determining annuities to be paid, the Branch does not verify contributions made in relation to salary earned which would automatically indicate errors made at any time during the period of service and reduce the possibility of error in calculating the annuity. Even with the transfer of responsibility for administration of the Superannuation Branch to the Comptroller of the Treasury in December 1963, this simple verification was not re-introduced.

On May 14, 1959, we made the following suggestion to the Superannuation Branch:

Might we suggest that, if the Superannuation Account and the interests of the individual contributors are to be adequately protected, the Superannuation Branch should ascertain that a contributor's account is in order before authorizing a benefit, and that the procedure should include an examination of the employee's contributions in relation to his salary and the documents on file. This would probably require the inclusion of a record of contributions (current and arrears) in the Non-elective Pensionable Service Record (FA9).

This suggestion has not been accepted and in our opinion the unsatisfactory situation in the Superannuation Branch will not be adequately resolved until it is adopted.

Reference was made in the 1963 Report and in last year's Report (paragraph 51) to the lack of verification of the correctness of contributions remitted to the Central Pay Division in respect of employees of various Crown corporations. We were advised last year that action would be taken to correct the situation. We find, however, that little progress has been made. Contributors' accounts in this category totalled 4,353 at December 31, 1959 and 8,493 at December 31, 1964. By September 1965 entries in 2,335 accounts had been completed and verified to December 31, 1959 and in 122 accounts had been completed and verified to December 31, 1964.

Mr. HENDERSON: This is paragraph 64, and we will also take paragraph 51 and deal with the two. I will deal principally with paragraph 64 because it updates the situation having to do with errors in Public Service Superannuation Account pension and contribution calculations.

The high incidence of errors here have been the subject of criticism by my office for a number of years. The matter was last examined in quite some detail in 1963 and 1964. It was on December 6th, 1963 that Mr. Bryce made a lengthy statement to the Committee on this very subject. He reviewed the situation at length and outlined the steps that were going to be taken to overcome it. The matter was again discussed when he was present on July 21st.

It was as a result of these discussions that the Committee, in its Sixth Report, 1964, expressed its further concern that the matter was taking so long to be corrected, and requested me to keep it fully informed as to the progress being made in this direction. As members are aware this was item 24 of our 1966 follow-up report.

We continue to be faced with having to draw the attention of the Superannuation Branch to errors disclosed by our test checking. As will be seen in the first paragraph at the top of page 38, we directed their attention to some 80 cases of non-payment or underpayment of amounts due under the Public Service Pension Adjustment Act, amounting to \$22,700 up to February 28, 1965, while a detailed check by the branch revealed 245 additional underpayments amounting to \$30,900 on July 31, 1965, and 13 overpayments. This was a particular type of error not associated with errors referred to in the past.

The individual amounts involved may not be large here but they are, as I think the Committee members will agree, of importance to the pensioners who

are entitled to know the precise amount of their entitlement and to be able to depend on its not being changed.

Every large organization has to face clerical work of this type in the administration of its personnel work and it is my view that prompt and effective steps are long overdue in this area.

We go on to say in this note that the multiplicity of errors, in our opinion, had its origin in a directive dated June 11, 1957 from the then Minister of Finance, which established a division of responsibility between the Superannuation Branch and the Comptroller of the Treasury.

Under this division the Comptroller's pre-audit of benefit payments was discontinued, and for some reason the Superannuation Branch was relieved of all responsibility for the correctness of superannuation contribution deductions. As a result, when determining annuities to be paid the Branch does not verify contributions made in relation to salary earned. If it did so, it would automatically indicate errors made at any time during the period of service, and consequently reduce the possibility of error when you come to calculate the annuity.

Yet even with the transfer of responsibility for administration of the branch to the Comptroller of the Treasury in December 1963, this simple verification was not re-introduced. Perhaps our witnesses today can shed some light on this.

Mr. BALLS: Mr. Chairman, this is a matter which has been before the Committee for many years, and as the Auditor General has said, on December 6, 1963, when appearing before the Committee, the Deputy Minister of Finance announced that the Minister had decided to transfer the Superannuation Branch from the general direction of the Secretary of the Treasury Board to the Comptroller of the Treasury. When Mr. Bryce appeared again before the Committee in July 1964 he suggested that at some subsequent time I might report to the Committee on my stewardship.

This is the first occasion that I have had an opportunity to do so, Mr. Chairman. I am very, very glad to be able to speak here today on it. With your indulgence I have a statement which I would like to read in connection with the steps that have been taken to meet these questions.

The CHAIRMAN: Proceed.

Mr. BALLS: Let me commence by saying that the Public Service Superannuation Act is a most difficult piece of legislation to comprehend and, I believe, a most difficult one to administer, being comparable to the Income Tax Act in its complexity. This, may I say, is more true particularly since the Act of 1953, which made superannuation a right rather than a privilege of employees. Moreover, as a result of the proposed amendments to the Act, which were placed before Parliament ten days ago and which have been referred to the joint committee on the Public Service of Canada, in the very near future the branch will have to cope with this new and even more complex legislation.

In addition to the Public Service Superannuation Act the branch is responsible for the administration of six other pension acts, the National Harbours Board Pension Plan, the Diplomatic Services Special Superannuation Act, the Public Service Pension Adjustment Act, the Annuities Agents Pension

Regulations, the Canadian Overseas Telecommunication Pension Regulations and the Canadian Arsenals Pension Regulations, together with a variety of reciprocal agreements with other public service employers, and the application of the old Civil Service Superannuation Act of 1924, in so far as it is applicable to current contributors. Moreover, since 1955, the branch has administered the supplementary Death Benefit Plan under Part II of the Superannuation Act, and, since 1960, the Public Service Group Surgical-Medical Insurance Plan.

Not only, however, in the complexity of the legislation does the branch have problems. It is in every sense a large scale operation. As at 31st March, 1965, the end of the year which we are studying, there were 176,914 contributors under the Act, and during the fiscal 1964-65, 19,557 employees became contributors and 18,348 contributors ceased to contribute, entailing either a return of contribution, an annuity to a retired employee, a widow or a child, or a lump sum payment. As at 31st March 1965, 46,377 persons were receiving pension benefits payable out of the Superannuation Account. These included 29,007 former employees, 14,263 widows and 3,107 children.

I could cite a number of financial statistics, Mr. Chairman, but just let me say that during 1964-65 the branch account received income of \$369 million, of which \$61.8 million represented contributions from employees and retired employees. The expenditures that year were \$64 million, of which \$52.6 million represented annuities; \$10.8 million, return of contributions; and there were some other transactions. With the result that at the end of the fiscal year, the balance of the government's liability under the account was \$2,161.8 million.

I hope this brief outline of the nature and extent of the operation for which the branch is responsible will give some indication of the magnitude and complexity of the task it faces in attempting to ensure prompt and accurate processing of all superannuation transactions.

When I assumed responsibility for the administration of the branch I appointed a task force, composed of four of my senior officers, to undertake a thorough review of all aspects of superannuation administration. I received the final report of that task force in February, 1964. Its recommendations were accepted and were introduced early in the fiscal year 1964-65, and they have been reviewed and re-assessed from time to time since then. I should like to review with you the action that has been taken.

In the first place, important administrative measures were taken to improve the competence of staff, to strengthen the organization of the branch, to improve communications with departments, contributors and annuitants, and in general to create an improved environment in which the incidence of the conditions noted by the Auditor General could be eliminated to the extent humanly possible.

With regard to the specific observations made by the Auditor General, let me say, first, that in ensuring that the provisions of the legislation are properly applied the branch has three main responsibilities.

The first is to ensure that the rights of the Crown and employees are protected and that the contributions and benefits are in accordance with the law. Secondly, to reconcile the amount of superannuation contributions actually made by a contributor for both current and elective service with the amount that he should have contributed. Thirdly, to verify that each superannuation

benefit entitlement is calculated accurately on the basis of the contributory service of the employee concerned.

In regard to contributions, I should explain that "current service" refers to continuing employment in the Public Service of Canada. "Elective service" usually refers to war service, or service with other employers, which may be counted as pensionable service if the employee contributes for it.

Since January 1st, 1953, the responsibility for ensuring that appropriate current service deductions are made from each employee's pay has been vested in the office that pays the employee's salary. In most cases, these are my Treasury Offices, but for various Crown corporations whose employees are subject to the superannuation legislation it is the Crown corporation, and for some revenue and semi-staff postmasters, who are paid by the Post Office Department, it is that department.

For the verification of contributions for current service prior to January 1st, 1953, and for all elective service, the Superannuation Branch itself is responsible.

Let me say, Mr. Chairman, that, in our consideration of the matter, it was at once clear that a contributor should not be subject to uncertainty about his entitlement after retirement and that to this end there should be a pre-retirement review of each contributor's file that would permit the correction prior to retirement of any errors made in earlier years, thus avoiding post-retirement adjustments. We have taken measures to this end in three areas.

The first relates to current service contributions prior to January 1st, 1953 and for elective service. In December 1964, a special audit section, with a staff of six, was established to review all superannuation transactions for contributors who, as at April 1, 1964, were in the age range of 55 to 63. This branch and section is now composed of eleven senior employees of the branch.

We selected this age range because the employees in this group were those most likely to retire in the near future with an annuity entitlement. It was felt that there was less immediate need to check the files of younger contributors as the great majority of those leaving the Public Service receive only a return of contributions.

There were approximately 25,000 contributors in this age group from 55 to 63. As of June 1st, 1966, the special audit section had carefully scrutinized some 7,500 files and had completed its review of some 6,700, with the remaining 800 in various stages of completion. Expressed in another way, by the end of June of this year the review will be virtually completed for all those contributors who had reached the ages of 63, 62, 61 and 60 on April 1st, 1964. For each individual, the special audit section checks to ensure that all contributions for elective service to the date of the audit have been properly paid, that all contributions for current service up to December 31, 1952, are correct, and that all vital documents are on the contributor's file. Any discrepancies are rectified, of course, immediately.

The second area relates to current contributions on and after January 1st, 1953. In regard to these, a procedure has been devised, and will be introduced by July 1st of this year, whereby the Superannuation branch will undertake to ensure that proper superannuation contributions have been reserved from salary for the pensionable service credits allowed. This will be done just prior

to retirement, or on completion of thirty-five years of contributory service, which is the maximum contributory period allowed. Together with the record of contributions up to December 31st, 1952, which is now maintained in the Superannuation branch, this will cover an employee's entire career.

This mathematical check, I may say, will be carried out by means of a comparison of the salaries paid to a contributor, as certified by the various paying offices, with the contributions in respect of such salaries and with a reconciliation sheet that will be prepared in the paying offices showing the total superannuation contributions actually reserved from salary. I may say that this procedure is in line with that suggested by the Auditor General in his report for 1964-65, although the technique adopted differs slightly from that proposed by him.

The third area is in regard to contributions of Crown corporation employees and revenue and semi-staff postmasters. For the employees of Crown corporations, who are not paid through my Treasury Offices, a new system of reporting was instituted in 1963-64, which will ensure that contributions are reconciled. The corporations concerned have been requested to submit complete reports for those years in which details of contributions are lacking. Current service contributions will be verified by my Central Services Branch and contributions in respect of elective service by the Superannuation Branch. This is being done just as rapidly as the data is received from the Crown corporations.

In regard to contributions on behalf of revenue and semi-staff postmasters, the Treasury Office servicing the Post Office Department, in co-operation with the department which pays the employees, and with the Superannuation branch, has reconciled all past contributions for these contributors. During 1965, the Chief Treasury Officer for the Post Office Department completed the reconciliation of current contributions for all such employees for the period from January 1st, 1953 to December 31st, 1963, and instituted an annual reconciliation program on a current basis for the year 1964 and thereafter. On completion, all reviewed accounts were transmitted to the Superannuation branch and the special audit section has verified current contributions for the years prior to January 1, 1953, as well as all contributions for elective service. This undertaking, which involved a reconciliation of contributions for nearly 4,000 individuals, was completed in April of this year.

Mr. Chairman, I hope that this outline will give the Committee some indication of the steps that have been taken to improve the general administration of the superannuation branch, and correct the specific situations described by the Auditor General in his report.

When I assumed responsibility for the administration of the branch I recognized that the situation, which had developed over many years, was not one that could be remedied overnight. It was clear that long range measures must be taken, and, indeed, in his evidence before this Committee in December 1963, Mr. Bryce indicated that a minimum period of three years was required.

In his reports since my office took over the responsibility for the administration of the Superannuation branch, the Auditor General has noted an improvement. He is not yet satisfied, nor am I, but I have every confidence that

the decisions that have been taken and the action that has been initiated over the last two years will produce the results which both the Auditor General and I desire.

In summary, then, Mr. Chairman, I believe action has been taken to remedy the situation described by the Auditor General. I repeat again, however, that the measures that have been taken are of a long term nature and it will be some time yet before the full effects are apparent. I am satisfied that progress has been made and that more will be made. I can assure you, Mr. Chairman, and every member of this Committee, that I shall not be content until the maximum efficiency humanly possible is achieved in the administration of the Superannuation branch and the legislation for which it is responsible. I can assure you that this feeling, too, is shared by Mr. Trudeau, the Director of the branch, and every member of his staff.

The CHAIRMAN: Thank you, Mr. Balls. This Committee, for at least the last three years, has had this matter brought to their attention concerning errors in the Public Superannuation department.

The Auditor General has carried out his responsibilities in bringing it to the attention of this Committee. You have explained to us the complexities and problems involved in this department. I think the Committee would want to know if these errors are being eliminated and you have endeavoured to prove to us that the branch is being operated on a much better level than it was previously.

I guess we are in the position where the Committee will have to ask the Auditor General if he feels that the outline which Mr. Balls has given us fulfills his requirements, or what he would like to see, as an auditor.

I think I will put this question to him at this time.

Mr. HENDERSON: Mr. Chairman, I would like to ask Mr. Long to speak to this matter, if I may.

The CHAIRMAN: Before Mr. Long speaks, how many of a staff have you on this Superannuation branch?

Mr. BALLS: There is an establishment of 217, Mr. Chairman.

The CHAIRMAN: Have you taken steps to automate it in any way, or computerize it, or come up to current efficiency methods?

Mr. BALLS: This is not essentially a problem of automation. This is essentially a problem of judgment and the interpretation of statutes.

We would visualize, in our longer range program, that there will be very real possibility to apply automatic data processing techniques for maintaining the records. But our prime concern is to ensure the accuracy of the records. It is no use putting inaccurate records on a computer. Our first step is to ensure that, as far as humanly possible, our records are accurate. Then our next step will be to see what possible applications there are for data-processing in the superannuation operation.

The CHAIRMAN: One other question: How did we allow this superannuation branch to get into this mess in the earlier days?

Mr. BALLS: On that, Mr. Chairman, I am afraid I cannot give you an answer to this. My association with it came in some measure with my responsibility for

the Central Pay Office in 1958, but I did not have responsibility for the superannuation branch until December 1963.

I think the occasion really came in 1963 and 1964 when the Superannuation Act was amended and brought in some 60,000 new contributors, and almost overnight the volume of the work of the branch was practically doubled. This entailed a tremendous amount of additional work. It had to be done quickly, and in some cases it was not done accurately.

The CHAIRMAN: Then we, as legislators, before we pass legislation, should enquire as to the feasibility and the method of setting up these pieces of legislation.

Mr. BRYCE: Mr. Chairman, I think what you suggest is very sensible. We are apt to forget, in making reforms and improvements, that it takes men and women and organization and training to carry them out. When we blanketed in all the temporaries back there in the early fifties we thrust on to this organization almost an impossibility in catching up very quickly on a vast task.

I would like to speak to the point you raised about how this branch got into such a state, and I do so with a certain diffidence.

The CHAIRMAN: I used a naughty word there. I could not think of another one.

Mr. BRYCE: It is all right. I think myself it was justified.

The fact is that when I became Deputy Minister of Finance in 1963 and looked at the audit observations on this and looked into the matter, I came to the conclusion that an operation of this kind should not be made the responsibility of an officer such as the Secretary of the Treasury Board who is concerned so much with day to day policy problems and authorizations because he has not himself the time to direct it as an operating unit, and he has not the kind of staff to give such direction at second removed.

It was with that in mind that I suggested that it be transferred to the Comptroller of the Treasury. I can speak feelingly on this because I had this responsibility myself prior to 1953 and the bringing in of the temporaries, and I found when I took it over that the branch was not in good shape. We got in an organization and methods group to look at it, and I think we improved the organization at that time. In doing so we were aiming at cutting down the number of employees and operating it more economically. It may be that we overdid it a bit, because we did not have the kind of reserves that would have helped us to do the job that was thrust on us by the legislation in the early fifties, which brought the temporaries in there.

I need hardly point out to members of the Committee how complicated this law is. You have got the amendments before you. If all of you can understand these amendments I think it is a great compliment to both the industry and the care of members of Parliament.

The fact is that you cannot go out and hire people off the streets and expect them to understand this law within a month or two. They have got to be trained in what it is all about. It is a slow job to get people who can interpret this very complicated statute, and I would hope that the Committee would bear that in mind in judging what is feasible and how it should be done.

The CHAIRMAN: Mr. Schreyer, did you have a question?

Mr. SCHREYER: I wanted to ask, Mr. Chairman, if the task of sifting out, or tracing down, errors and correcting them would not somehow be expedited in the process of going over to automatic data-processing? In the actual process of programming for automatic data-processing it seems to me there would be a good opportunity for this to be done.

Mr. BALLS: We think, Mr. Chairman, that there are very real opportunities ultimately for the data processing application, but, as I mentioned earlier, our first concern is to ensure that our basic record that we hold now is accurate. This is the first step. When we are satisfied with that then we can proceed to current recording on data processing application.

This, I might just say in passing, is an area with which I and my officers are very deeply concerned at the present time. I think the Comptroller's office has probably more data-processing applications than any other user in Canada. We are very, very much alert to the opportunities for the use of this equipment, but we also want to be very sure that, when we do apply it—it is very costly equipment—we apply it efficiently and economically. We certainly have this in mind. This is one of the long range programs that we have before us. The task force which I mentioned in my statement specifically referred to the possibility of this, and this is one of the items on our agenda.

The CHAIRMAN: I think I had remarked that we had heard both sides, and that the Committee would be interested to know if there was greater efficiency and that fewer errors were occurring.

I think I had asked the Auditor General if he wanted to say anything in this regard.

Mr. HENDERSON: I would like Mr. Long to speak to this, if I may, Mr. Hales. He has some figures.

Mr. G. R. LONG (*Assistant Auditor General*): Mr. Chairman, as was indicated in our note on page 38, it was on May 14th, 1959, that we wrote to the Superannuation branch and suggested that, before authorizing a benefit, their procedure should include an examination of the employee's contributions in relation to his salary and the documents on file. If I understand Mr. Balls correctly, I think he has said that within the next three weeks this is going to be introduced.

Mr. BALLS: My comment, Mr. Chairman, was that a system that is essentially the same as that recommended by the Auditor General will be introduced. The technique will differ slightly.

The CHAIRMAN: But it will achieve the same purpose.

Mr. BALLS: It, I am sure, will achieve the same purpose. Our feeling is that it will be a more efficient system.

Mr. LONG: Of course, we were not dealing with any particular system or technique; it was simply that errors were made, and there are still errors being made although Mr. Balls has improved the branch. There are still current errors, but using this check at the time of the superannuation benefits going into effect, these errors will be caught before they do any real damage. This is what we have been after. If this is done, and done properly, we will not see errors after this, because they will all be caught. They have to be caught.

We do have figures here on the result of our last year's work, but if this is going to be taken care of I am not sure that there is much point in going into these now. There has been a gradual improvement.

Our point has been that the improvement has been very slow and we did not think the problem would be completely overcome until this last check, at the time of authorizing a benefit, was put into effect. I think our point will be completely taken care of within the next three weeks.

Mr. BALLS: If I may just add a point, Mr. Chairman, this is our aim. We have felt that we have now covered every possible avenue of error arising and that we will now have a system whereby these will be checked and, if at all humanly possible, prevented completely in the future before a person proceeds to retirement. There may be a few cases where a person proceeds to retirement without warning the branch where we may have to look at it at the time of retirement but we do hope we will have eliminated the possibility of errors arising after retirement.

The CHAIRMAN: The Committee hopes that it will not see this in the Auditor General's report next year. It has been there for about three or four years now, and we hope that this is the last time we will look at it.

Mr. LONG: There is another year to report on in the meantime, Mr. Chairman.

The CHAIRMAN: I will back up one year, then. We will close off here in about five minutes. I wonder if—

Mr. HENDERSON: I might just make a reference to paragraph 52. I believe Mr. Bryce thought that this should perhaps be left until the Treasury Board is with us, but we did discuss this case, you will remember, in the Committee on May 3rd.

There is no suggestion here that the pensioner should have been penalized for this mistake, and I certainly agree that the officials of the Treasury Board obviously did the sensible thing. However, we do think that in the interests of effective financial control a letter should have gone forward to the pensioner explaining the situation.

This is a mistake that originated in the Superannuation branch, whereby she was overpaid, and our point was, as you will recall, that the action should have been evidenced by some letter or something to the pensioner in the interests of effective internal financial control, and that is the point the Committee will discuss with Dr. Davidson. I presume that you would agree with that.

The CHAIRMAN: Yes. I think we have discussed the town of Oromocto.

Mr. BALLS: Mr. Chairman, may I just add one word in answer to Mr. Henderson on this. I would like to record the fact that the normal practice of the superannuation branch is to inform employees and annuitants of overpayment, or underpayment, with a view to collecting or reporting the amount as the case may be when deletion is authorized in the case of a debt. In other words, the normal practice is to so advise the person concerned.

The individual in this case was in her eighties. As the action had been taken by the Treasury Board to waive recovery, there was very real concern that this might create a shock to the widow of some 82 or 83 at the time, and

this was the reason that this was not done in this particular case. The general policy is to so advise annuitants and contributors.

The CHAIRMAN: Well, this brings up a point I would like to clear up. I understand that the department sees the Auditor General's report before it goes for printing. This particular item 52 would go to the department of Finance, you would have an opportunity of reading it over, and you would send it back to the Auditor General and it would be printed. Why would you not correct the Auditor General's report, as you have done here now, before it gets into this printed form?

First of all, is it a fact that the department sees your report before it is printed?

Mr. HENDERSON: Mr. Chairman, the text of my statements in my report are sent to the deputy ministers in each of the departments with the question as to whether or not the facts are right.

The extent to which they wish to brief me further, or add additional information, is a matter of relationship between us, and I am always pleased to receive any comments which they wish to send, and in some cases they extend into further discussion.

In the case of this particular note, Mr. Balls was good enough to say in his statement that he did not have any criticism of the figures, or the factual information contained in there.

The criticism is my own, for which I accept full responsibility. The decision as to the information I shall give to the House is my responsibility. But I seek in all these cases to temper my approach with fairness, at the same time carrying out how I conceive my responsibility to the House of Commons.

The CHAIRMAN: I agree, Mr. Henderson, with that.

Mr. Balls, why would you not have a sentence added to section 52 to say that the widow was 82 years of age and that you did not wish to alarm her?

Mr. BALLS: I have the information, Mr. Chairman, which I submitted to the Auditor General in regard to his comments for 1965, and also what Mr. Bryce transmitted in this connection, but I have not got a reference to this item in relation to 1964. I think at the time that this was regarded as a policy consideration that really fell within the purview of the Treasury Board.

Mr. LONG: Mr. Chairman, might I say something about this? I would not want to let you get away with saying that Mr. Balls has corrected something here that was in the note.

Our concern in this note was that we did not know, and we still do not know, if anybody had collected this money and kept it. It is true that this was an 82 years old widow and this was not mentioned in the note. There was no suggestion that other action should have been taken in her case, but all widows in their eighties are not poor and many widows in their eighties, I would suggest, are very proud. She might be very disturbed if she thought that somebody in Ottawa had decided they had to write off something which she had received by mistake, which she would not want to keep.

The whole point here is that there is a danger in writing off an account when the person concerned does not know that they owe that money, and when the person does not know that action was taken on their behalf.

Mr. BALLS: I have referred to this, Mr. Chairman. This is the policy consideration which it was suggested should be dealt with by Dr. Davidson, the secretary to the Treasury Board, at the meeting next week. I spoke to Dr. Davidson and he said he would like to speak to this point.

The CHAIRMAN: All right. We will leave it for further reference.

We will have to adjourn at this point.

Gentlemen, we will finish with the Department of Finance this afternoon. There will not be any problem in completing it. I understand the witnesses are agreeable to attending, and the Committee will adjourn until approximately three-thirty.

The meeting is adjourned.

AFTERNOON SITTING

● (3.30 p.m.)

The CHAIRMAN: Gentlemen, we recessed at 1 o'clock and we will now proceed from where we left off, namely page 50 of the 1964 Auditor General's report, section 3, which has to do with the Department of Finance, unpaid accounts carried forward to new fiscal year:

DEPARTMENT OF FINANCE.—The 1963-64 Supplementary Estimates (E) included an additional amount of \$2,800,000 (Vote 45e) for payment of municipal grants. This amount was insufficient to cover the remaining grants which were approved for payment in the fiscal year 1963-64 and grants totalling \$806,503 had to be carried forward for payment in 1964-65.

Mr. HENDERSON: The only item for discussion here is subheading number 3. The other items were discussed in the committee on May 12.

Subparagraph 3, dealing with the Department of Finance, was a case where appropriations for 1963-64 were insufficient to meet accounts coming in for payment that year. As you know, bills such as this cannot be paid if it results in expenditures being made in excess of available appropriations. However, as you discussed and will recollect, difficulty in estimating requirements is often a factor. We do have to recognize that the incurring of such obligations is tantamount to the overspending of appropriations and, therefore, it cannot be dismissed lightly.

When this matter was discussed on May 12, the suggestion was made that it might be more informative to members and to the public if the public accounts were to include a listing by departments and appropriations of all amounts remaining unpaid at the year end for any reason whatsoever, this should not

entail too much work. I think the committee felt this would be a useful change and perhaps, Mr. Chairman, the witnesses would care to comment on that suggestion.

Mr. BRYCE: In connection with this item, I think it is clear, Mr. Chairman, that in asking for the supplementary estimate, to which reference was made, we did not forecast successfully what grants would be "makeable" if I may use that term, and consequently we did not have enough funds to pay the grants of which the amounts had been determined.

● (3.45 p.m.)

These grants, of course, are determined in accordance with a statute. We do not have discretion as to whether we will make a grant or not. What the department does is calculate the grants in accordance with the statute. So, the problem here is essentially a forecasting one, plus a question of speed in making the actual determinations. We had to forecast not only what the formula would yield applied to the facts of the year in question, but how quickly the department could calculate the grants under the formula. Essentially, what happened in this year, I am advised, is that more grants in fact were calculated and determined by the end of March than we had anticipated at the time the supplementary estimate was forecasted.

The CHAIRMAN: Mr. Bryce, further to the suggestion which the committee made when we discussed this matter previously, namely that they felt it would be a good idea for departments to list unpaid accounts at the end of each year, have you any remarks concerning the feasibility of it, and so on?

Mr. BRYCE: Well, if we take this case as an example, the problem here would be that in order to list unpaid accounts, we would have to decide whether we should try to estimate unpaid grants which could have been determined under the formula for the grants, but which had not been determined. The actual determination of the grants in many cases is what determines the actual expenditures which will be made that year. Now, if the grants had not been determined we could not list them. I do not know if it would be possible to make an over-all estimate of what the probable determinations might be?

Mr. HENDERSON: Perhaps Mr. Long could explain this matter.

Mr. G. R. LONG (*Assistant Auditor General*): Mr. Bryce, I do not think that would be the point here. The point would be to list those accounts which were not paid solely for the reason that there was not sufficient funds in the appropriation. In other words, the accounts which you charged to the next year's appropriation which should have been paid in the previous year.

Mr. BRYCE: We could certainly do that once we determine them; this would not be a problem.

The CHAIRMAN: That is really what I had in mind.

Mr. BRYCE: The comptroller knows far more about this as a general proposition.

Mr. BALLS: There is one point on this, Mr. Chairman. The information as to what is not paid would not be available in the treasury offices. We would certainly have any requisitions submitted to us and which we had not acted on

by virtue of the fact that there were not sufficient funds in the appropriation. The departments are well aware that if they submitted requisitions to us, we would not act on them if there were not sufficient funds. Therefore, we would not have this within our records. We would have to circularize the departments, and we would have to publish a report in the Public Accounts on the basis of advice received from the departments. This would not be on the basis of our accounting records necessarily.

Mr. LONG: Mr. Balls, would you not be able to identify previous years' accounts when they are being paid in the new year?

Mr. BALLS: This may be true, but bear in mind this may be some period after the time when we prepare the Public Accounts. I think we would have to ask departments to identify these if we are going to publish a satisfactory statement in the Public Accounts.

The CHAIRMAN: It should not be any problem for the departments to do that.

Mr. BALLS: I think this can be done, but it would have to depend, I believe, on departmental advice.

Could I add one further thing, Mr. Chairman, in regard to this particular item. There is one aspect in regard to the difficulty of errors in estimating, but I think we should bear in mind too, that the fact there are unpaid accounts has some reference to the requirements of the Financial Administration Act and the responsibilities of my office under that act to ensure that a payment must not be made unless there is an available appropriation for it. To the extent that there are unpaid accounts, this simply reflects the effectiveness of the controls which are being exercised on behalf of Parliament to ensure that appropriations are in fact not exceeded.

The CHAIRMAN: Is there anything further on that section? Mr. Long, do you want to ask any further questions?

Mr. LONG: I was going to say that I think a listing such as that would give a true picture. As Mr. Balls says, the Financial Administration Act prevents you from making a payment. When is money spent, when you pay it or when you actually incur the obligation? The alternative would be, if the act did not stop the payment, to show over-expenditures over the estimates in each of the appropriations. However, the act does stop the payment and, therefore, should the members of Parliament not be made aware of obligations incurred which really should not have been incurred because parliamentary authority for them did not exist.

Mr. BRYCE: Mr. Chairman, could I put a question to Mr. Long. How can one say in this case, where Parliament has determined by statute the grants which we are to pay, that the obligation should not have been incurred?

Mr. LONG: The grants, of course, which come under finance are a very special item. The other items in this paragraph are expenditures of other departments. For instance, in the case of National Defence they had a supplementary estimate of \$13 million when they should have had \$25 million. Your municipal grants are in a particular class. Nevertheless, had your estimates been greater, there would have been that much more expenditure in the year.

Mr. BRYCE: I quite agree that our forecast should be accurate.

The CHAIRMAN: We will now turn to the 1965 report, page 112, paragraph 167. Before proceeding with that, I would like to take a moment to welcome a group of students from the Civil Service Commission who have come in to see the Public Accounts Committee at work. We welcome you. We are reviewing the Auditor General's Report which has to do with the observations made concerning the Department of Finance, and we have Mr. Bryce, the Deputy Minister of Finance, and Mr. Balls, the Comptroller of the Treasury, with us as witnesses.

I would like the Auditor General to introduce a person who is here at his invitation.

Mr. HENDERSON: Mr. Chairman, it gives me much pleasure to introduce to you Mr. A. K. M. Faiz, the deputy secretary of the National Assembly of Pakistan, who is interested in the workings of your committee. Following a discussion of some of the procedures with Mr. Faiz, we thought it would be nice if he came along and sat in this afternoon to see the committee in action.

The CHAIRMAN: Thank you, Mr. Henderson. We will now deal with paragraph 167, which is as follows:

The Statement of Assets and Liabilities as at March 31, 1965 was prepared by the Department of Finance on the same basis as in previous years, the following explanation concerning this basis being included in the introduction to the Public Accounts:

With certain exceptions, taxes and revenues receivable, revenue and other asset accruals and inventories of materials, supplies and equipment are not recorded as assets (except when these are held as charges against working capital accounts or revolving funds) nor are public works and buildings or other fixed or capital assets. Following the principle that only realizable or interest—or revenue—producing assets should be offset against the gross liabilities, costs of capital works are charged to expenditures at the time of acquisition or construction. Consequently, government buildings, public works, national monuments, military assets (such as aircraft, naval vessels, and army equipment) and other capital works and equipment are recorded on the statement of assets and liabilities at a nominal value of \$1 as the value is not considered as a proper offset to the gross liabilities in determining the net debt of Canada.

On the liabilities side, accrued liabilities (except for interest accrued on the public debt) are not taken into account in determining the obligations of the government. However, under section 35 of the Financial Administration Act, liabilities under contracts and other accounts payable at March 31 if paid on or before April 30 may be charged to the accounts for the year. These are recorded as accounts payable in the "Current and demand liabilities" schedule to the statement of assets and liabilities.

This explanation reflects a policy established by the Minister of Finance in 1920, that assets to be included in the Statement of Assets and Liabilities should be confined to those which are readily convertible or

which are revenue-producing. The Minister had immediately implemented this policy by removing from the Statement of Assets and Liabilities a substantial amount in loans, etc., which could not meet this test.

This policy has been followed by successive Ministers of Finance ever since but a major exception was introduced in 1957-58 when funds required by the National Capital Commission for the purchase of lands in the Greenbelt were recorded as loans to the Commission instead of budgetary expenditures as had formerly been the case. They were given the appearance of being revenue-producing by asking Parliament to appropriate money to the National Capital Commission with which to pay interest on the loans. This practice has been the subject of comments in previous Reports and has been considered by the Public Accounts Committee which holds the view that outlays on properties in the Greenbelt are expenditures of the Crown rather than income-producing investments. The Committee has on two occasions requested the Department of Finance to review the existing practice with the National Capital Commission with a view to placing the financing of the Commission on a more realistic basis. This is one of the observations of the Standing Committee on Public Accounts which has not yet been dealt with by Executive action.

As is pointed out in paragraph 55 of this Report, the funds required by the Canadian Broadcasting Corporation to meet its capital expenditures during the year ended March 31, 1965 were provided by means of loans from the Government instead of grants as in the past.

The explanation quoted above means that the costs of government buildings and other public works undertaken by government departments are charged to expenditure at the time of acquisition or construction because the departments are dependent on public revenues for their capital needs. The two Crown corporations referred to above are also dependent on public revenues for their capital needs.

Mr. HENDERSON: This paragraph can be dealt with at the same time as the companion paragraph in the 1964 report on assets and liabilities.

In this note are contained my comments on the assets and liabilities, the presentation of them, and you will notice we reproduce the explanation given each year by the Department of Finance about which some discussion ranged this morning.

As I go on to explain, this explanation reflects the policy established by the Minister of Finance 46 years ago, namely that assets to be included in the statement should be confined to those which are readily convertible or which are revenue producing. It may interest members to know that the Minister of the day, as I understand it, immediately implemented this policy by removing from the statement a substantial amount of loans, and so on, which could not meet the test. I felt it was not inappropriate to mention that at this point, Mr. Chairman.

I go on to say that this policy has been followed by successive Ministers of Finance ever since, the first major exception, however, took place in 1957-58 when, as we were discussing this morning, funds required by the National Capital Commission for the purchase of lands in the Greenbelt came to be

recorded as loans to the Commission instead of budgetary expenditures as had formerly been the case. Mr. Bryce referred to that this morning when we were discussing the recording of these advances to corporations and, as you know, the policy has since been extended by the government to include loans to the Canadian Broadcasting Corporation and, in a somewhat slightly different context, to Expo '67. I do not think I have anything more to add to that.

The committee is on record, as I mention here, of asking the Department of Finance to review the existing practice with the National Capital Commission with a view to placing the financing of the Commission on a more realistic basis. Whether that review has taken place or is going to take place, is something he will probably want to speak to you about.

Mr. BRYCE: I believe the results of our review were reflected in what I said this morning.

Mr. MUIR (*Lisgar*): Are we given to understand then, Mr. Bryce, that there will be no change in your accounting as far as these organizations are concerned?

Mr. BALLARD: In other words, Mr. Chairman, they will not consider the recommendation of this committee?

Mr. BRYCE: The government has not changed its practice as a result of that. These are determined by the Treasury Board and put to Parliament in the estimates.

The CHAIRMAN: We discussed this subject this morning, Mr. Ballard, and there is a difference of opinion as to whether they should be treated as grants or loans. The Auditor General has his recommendations on this; the Department of Finance think differently. The committee will have to weigh the pros and cons and persuade the House to think along the same lines as we do on it, if we come to a decision concerning the matter.

Mr. BALLARD: I would like to hear the Auditor General's opinion with regard to how this should be handled.

The CHAIRMAN: He gave it this morning, but I am sure he will be glad to give another brief outline on it.

Mr. HENDERSON: I do not know in what depth you wish me to repeat the testimony of this morning. I could give the highlights for the benefit of Mr. Ballard and perhaps some of the other gentlemen.

We might refer back for a moment to paragraph 55 of the 1965 Report which had to do with the method of financing capital expenditures of the Canadian Broadcasting Corporation. In this paragraph I describe the change in the method of financing which had taken place in the year, that is the financing of the capital expenditures of this corporation; that is to say, instead of being voted in the House as a budgetary expenditure, it changed over and loaned the money. As a result of this change, it was necessary for me to advise the House, as is stated in this paragraph, that the annual statement of expenditure and revenue of Canada was not prepared on a basis consistent with that of the preceding year, and the consequence of this was that the resultant over-all deficit of approximately \$38 million shown on that statement was understated to the extent of the amount involved, namely \$14½ million.

As these loans cannot be repaid by the corporation unless it is placed in further funds, the loans do not, in my opinion, constitute an asset and I do not consider they can be properly described as such. I explained that I had made inquiries both in the Department of Finance and the Treasury Board as to the underlying reasons for this, but until I heard the explanation this morning, I have not received any. I am concerned that a change of this type should be made because it is, in my view, a contradiction of the long-standing principle of the Department of Finance itself which is mentioned here in paragraph 167, namely that only realizable or interest- or revenue-producing assets should be offset against the gross liabilities in the statement of assets and liabilities, with costs of capital works being charged to expenditure at the time of acquisition or construction. This is the explanation given and it continues to be placed by the department in its annual statement of assets and liabilities.

The department's view is that their present method is fully supportable, and, notwithstanding the recommendation made by the committee in its 1964 report, the government has continued to actually expand what originated with the National Capital Commission, the CBC and now Expo.

I think I should speak about Expo 67, Mr. Chairman, but perhaps Mr. Bryce would like to say something for the benefit of Mr. Ballard.

Mr. MUIR (*Lisgar*): Before Mr. Bryce makes his statement, it seems to me that Mr. Baldwin made some suggested compromise. He left the committee shortly after you were going to comment on it, Mr. Bryce. Could you do so now?

Mr. BRYCE: Mr. Balls did so after Mr. Baldwin came back. He pointed out that we have included in the Public Accounts a category of loans and investments in crown companies, the recovery of which is dependent upon appropriations. It may be that we ought to word this item a little more clearly to indicate that they are loans to crown companies which are in large part dependent on parliamentary appropriations. I think perhaps we ought to give it a little more prominence because I do not think it has been recognized that this change has been made.

Mr. MUIR (*Lisgar*): You would not suggest putting grants instead of loans in that, would you?

Mr. BRYCE: No sir, because I think that would defeat the purposes we had in mind.

Mr. HENDERSON: I can only say that if recovery of a loan or recovery of an asset is likely to require parliamentary appropriation, then I fail to understand how it can be described as an asset; it seems to me an admission of the very point we are making. Of course, if you give it more prominence, do you contemplate you will give it that prominence right on the statement of assets and liabilities rather than putting it in a subsidiary schedule?

Mr. BRYCE: Quite possibly. I think that is a useful suggestion.

Mr. HENDERSON: Perhaps Mr. Long would like to add something to that.

Mr. LONG: Mr. Bryce, would you not think, if you were giving that prominence, you should also indicate the effect this has had on the deficit for the year which appears on your statement?

Mr. BRYCE: I would have thought that the House is quite capable of seeing that point directly.

Mr. LONG: On your balance sheet you have an accumulation of several years of these things, and the House would have no way of knowing from the balance sheet how much pertained to that particular year.

Mr. BRYCE: Only by seeing the difference which is shown.

Mr. THOMAS (*Middlesex West*): Mr. Chairman, there is rather an important point here. If the committee, in past years, has been wrong then they should amend their findings, but to have a department of the government disregarding the findings of this committee strikes me as rather important; that is, it should not be an open defiance of the findings of the committee. This is what strikes me as an important factor. If the committee is wrong then they should correct themselves, that is for sure. But when there is a matter of open defiance by a department of the government it constitutes defiance of power and, therefore, it becomes a serious matter.

Mr. BRYCE: Mr. Chairman, I would like to comment on that. This is not a question of the department defying the committee. These decisions are government decisions; they are decided by the Treasury Board in preparing the estimates, and are concurred in by the government itself. These particular items have been approved by the House in this form. Therefore, there is a difference here between what the House has approved and what the committee has approved. I think it is not a question here of right and wrong; it is a question of which is a better way of doing it. There is, of course, room for differences of opinion as to what is a better way of doing this. I do not think it is a question of right or wrong so much as what is most useful and helpful in understanding what is going on.

Mr. THOMAS (*Middlesex West*): It leads to a rather confusing situation to my mind, and there is looseness somewhere. I mean to say there is supposed to be a head to all of our governmental enterprises and somewhere authority must reign. It raises the question as to what authority this committee has; it raises a question as to the usefulness of this committee. Possibly the committee lacks the confidence of Parliament. Perhaps the committee did make a mistake, but somewhere along the line there is a looseness, an incongruity here that something is not right. At the moment I do not know how we can correct it, but there is something wrong and the weakness should be covered in some way.

Possibly, if it is government policy, and the government approves this policy, Parliament retains confidence in the government, then certainly it would appear to me that this committee is wrong; the committee must be wrong. It is all right to make recommendations, but surely the recommendations of the committee, somewhere along the line, should be dealt with and they should be either approved or disapproved. However, if this committee is making recommendations which are more or less meaningless in effect, then why should we sit?

Mr. MUIR (*Lisgar*): Mr. Chairman, may I comment on this. Mr. Bryce has suggested that perhaps there is a little area of compromise in this matter, and he is willing to insert these suggestions in the financial statement. However, in answer to Mr. Thomas, I do not think the committee has been completely

wrong. I think perhaps we could take a look at the compromised statement as suggested and see whether it does give us the information which Parliament requires.

Mr. BALLS: I was going to make two points in partial answer to what Mr. Thomas has said and also in regard to Mr. Muir's comments.

I would like to refer to section 63(2) of the Financial Administration Act which says:

Subject to regulations of the Treasury Board, the Minister—
and this refers to the Minister of Finance

—shall cause accounts to be kept to show such of the assets and direct and contingent liabilities of Canada, and may establish such reserves with respect to the assets and liabilities, as, in his opinion are required to give a true and fair view of the financial position of Canada.

Mr. HENDERSON: Might I just interject here to point out—

Mr. BALLS: May I continue, Mr. Chairman?

The CHAIRMAN: You may continue and then Mr. Henderson will follow.

Mr. BALLS: May I further point out that when Mr. Bryce was speaking before this committee in 1964, he indicated that not the following year, but at some subsequent time he would hope that we would be able to put before this committee a considered statement in regard to how the assets and liabilities of Canada should be shown.

I can say on this that we have given very considerable study to this. It is not an easy problem by any means. We could cover many aspects of the asset and liability presentation that have not been discussed today; for example, the question of deferred charges, how to deal with equity in crown corporations, prepaid expenses, and loans such as we have been discussing. There are many problems involved and we have been giving a great deal of consideration to this. I hope that possibly next year, we can put forward something to this committee which will carry the support of the Minister. This was a previous commitment given to the committee; we have it very much in mind, and we hope to be able to produce this.

Mr. HENDERSON: Regarding section 63(1) which Mr. Balls quoted, that the Minister shall cause accounts to be kept and so on, as in his opinion are required to give a true and fair view of the financial position, I would point out that in the following paragraph it says that that statement has to be certified by me as to whether it fairly presents that type of a position. This is why I have to say to you that I do not think it does present a true and fair view. One of the basic responsibilities of an auditor is to bring these points to attention.

Now, respecting the other point about the study, let me say to you that no one is more ready than my officers and I to sit down and devote all our energies to discussing a matter like this with officials of the department. I have made two efforts to do this which have not produced any results. This is the first indication I have had that such a study is actually under way. I suggest that if something like that could be done, I would be only too happy to follow Mr. Muir's suggestion to see if, in fact, a more effective presentation could not be devised. At the moment it is difficult to see how, with the description attached

to these loans they can be treated as assets; but if, on further mature consideration by the committee, they feel we should get together and come up with something, I suggest we do so.

Mr. FORBES: How would it be if we changed the definition to say "grants and/or loans"?

Mr. HENDERSON: Well, "grants" is a difficult word for them to accept under the circumstances, Mr. Forbes, but it might be that there is some other way. As I mentioned this morning, I have not been thinking along those lines. However, I suggest that two heads are always better than one, so why do we not try that?

Mr. BALLARD: I am sorry to have reopened a subject which was under discussion this morning. I did so because of my absence, but I wonder if we could ask Mr. Balls how soon we might expect this report. For example, can we expect it by the end of this month?

Mr. BALLS: No.

Mr. BALLARD: Then would you make a statement as to how soon we can expect to have it so that it can be considered?

Mr. BALLS: I thought I indicated, Mr. Chairman, that I did not think this would be possible this year, but I hope at next year's committee we will have something which the Minister might authorize.

The CHAIRMAN: Did I understand you to say that you started to make this study in 1964?

Mr. BALLS: No. My recollection is that when Mr. Bryce was before this committee in 1964 he indicated that he would hope not the following year, but at some subsequent year that such a study would be undertaken and the results of it communicated to this committee.

The CHAIRMAN: Would the committee be unfair in stating that we think that report should have been ready by now?

Mr. BALLS: The problem is a very real one, Mr. Chairman. I can assure you a great deal of thought has been given to it, but we have not yet been able to come to complete final answers on this. It is apparent, even from our discussions today, that there is a great difference of view. We are trying to get something which will be a supportable recommendation. I may say it is the sort of thing which has been studied in other jurisdictions and other national governments, and they too have had great difficulty in coming to a satisfactory conclusion with respect to how statements of assets and liabilities should be presented when a national government is concerned.

The CHAIRMAN: From what has been said here it would appear that there might have been a little more co-operation in getting together, from the observations I have gathered here as Chairman. I hope this condition will rectify itself, and that the Auditor General's office and the Department of Finance will get together on this problem and reach a satisfactory conclusion.

Mr. BRYCE: Mr. Chairman, perhaps I should say that it is the Minister and I who are the bottlenecks in this matter, not Mr. Balls and the accountants. Our time has been so taken up with other things that we have not done sufficient work on it at the top of the Department of Finance to permit Mr. Balls or his officers to take it up productively with the Auditor General's office. It does not reflect any lack of desire on our part to discuss it with the Auditor General.

Mr. MUIR (*Lisgar*): Having taken into consideration the complexity of the problem—and we all see it here—I think it is fair enough if we can have some assurance that next year a report can be made to the committee.

Mr. FLEMMING: Mr. Chairman, my question has to do with what would happen if the recommendations of the committee had been followed and these purchases of land in the Greenbelt were recorded as expenditures instead of loans. I assume it would simply increase the deficit for that particular year if there were a deficit, or reduce the surplus, if there were a surplus. My question is: You never expect to get loans of this nature paid by the National Capital Commission, do you? They are not going to pay you in cash, are they? I see no reason why they should not be treated as expenditures. I note by the paragraph that that was done previous to 1957 and then the system was changed. I think this is purely a question of a difference of opinion as to a common procedure.

Mr. BRYCE: It discloses to Parliament and draws their attention to things which merit attention.

Mr. FLEMMING: If this is carried as a loan, then it appears as if it were an asset, does it not? Whereas, actually it is an expenditure, is it not?

Mr. BRYCE: I do not like to reopen a long discussion. I think we must bear in mind that our statement of assets and expenditures has lots of other problems in it too. We show the CNR, for instance, as a huge asset and everyone knows we have been planning for three years to put legislation before Parliament to provide for its recapitalization. On the other hand, we show our investment in the Bank of Canada as \$5 million, I think, and we get a return on that asset of something like \$130 million of \$150 million a year. So that perhaps \$5 million understates what one might regard as a proper valuation on it. Therefore, it is by no means a perfect statement to indicate to people what all these things are worth in some economic sense.

Mr. FLEMMING: Some of them are revenue producing, are they?

Mr. BRYCE: Oh yes.

Mr. BALLARD: Mr. Chairman, I think the problem here is that while I do not agree with the presentation which has been made on the balance sheet, there is a problem and a point of view from the Department of Finance which I can accept, and that is this. When these grants are made initially, in many cases there is really no way to tell whether they are going to be revenue producing from their own corporate entity or commission entity, or whether the loan or the cost of carrying the loan is going to be contributed in addition to the loan from the coffers of the government. I think it should be quite a difficult decision for the Minister of Finance to make at the time of the initial grant of a loan, to

decide whether this should be shown as a non-recoverable grant, in which case it could be shown as an expense, or whether it is a grant which will some day be recovered and which, in the interim, may pay interest.

A case in point is a grant to the National Capital Commission, which we can say no one really ever expects to be repaid. On the other hand, a grant to the Bank of Canada could be repaid, and in the interim it could pay its own carrying charges. I think the danger of saying that the Department of Finance should determine which of these grants is recoverable is one which is very current in our minds at the present time, and that is the grant to Expo. At this present moment I think it would be very dangerous for the Minister of Finance to say this loan will not be recovered. It then takes away the compulsion which might be inherent in the loan under the present circumstances to have the loan repaid.

I think it would be difficult for Parliament or for the Minister of Finance to decide, in the initial stages, what to expect in the future from a loan which is made. So there is a difficulty that I can see. I think probably a grant to crown corporations or commissions should be set out separately in probably two categories; one a grant to crown corporations, and secondly, a grant to commissions and so on.

I think the accounts should also be very specific in the amounts of money which have been voted by Parliament for the payment of interest on grants made to crown corporations and to commission. In this way you could determine the over-all effect on the public purse by these two disclosures. The disclosure, first of all, of the interest voted by Parliament for the satisfaction of a government loan, and secondly, the amount of loans made in these two particular categories.

The CHAIRMAN: Mr. Long, do you have some observations?

Mr. LONG: Mr. Ballard, if you will look at our paragraph 167, page 112, you will note it sets out a copy of what the Comptroller of the Treasury puts in the Public Accounts as the basis on which it is determined what is shown as an asset on the balance sheet. It is a comparatively simple basis; it has been in effect for many years. Briefly it is that anything which is recoverable or is revenue producing may be treated as an asset; otherwise it is an expenditure. In public finance, rightly or wrongly, it has always been considered necessary to regard pretty well all cash—that is unless it is recoverable—as something which has to come from the taxpayers and, therefore, a budgetary expenditure. All your payments on land and buildings, are treated as budgetary expenditures. This is the policy, and this is the policy stated in the public accounts.

The points we are mentioning, namely the National Capital Commission, the CBC and Expo, are exceptions to this stated policy. Why should land in the Greenbelt be shown as an asset, but Uplands Airport, which is also in the Greenbelt, be written off to expenditure?

Mr. BALLARD: Of course, this follows along the remarks I made that in some of these cases there is a possibility of recovery.

Mr. LONG: But not the cases which have been mentioned here. These people cannot possibly produce revenue. Now you mentioned Expo. The Expo loans are

to cover the acknowledged expected deficit of Expo, that is after taking into consideration all revenue Expo will have, there is going to be a good healthy deficit. There will be buildings left but no one knows how much they will be worth. They are not built on land owned by Canada. What will happen there as far as title to the land and title to the buildings are concerned?

In all of the cases mentioned here there is no earning power to pay interest. For example, in the Greenbelt the loans are worth \$34 million; the revenue from rentals is \$500,000, but this revenue has to take care of carrying charges. I think the experience in the Greenbelt has been that if you want to keep farms in operation you have to make capital expenditures on them to keep the occupants happy.

We feel that anything where there is revenue in sight to pay interest or to repay the loan, fine, there is no criticism, but in these cases the revenue is not in sight except from government appropriations. This concept was started in 1957-58 in connection with the Greenbelt purchases. Right now there are loans of \$67 million to the National Capital Commission covering the Greenbelt, the Queensway which was financed that way, and is now almost cleaned up, there was \$1 million loaned to them for the Eastern Parkway, and \$11 million loaned for the Ottawa River Parkway. Where is this money going to come back from except from appropriations?

Mr. BALLARD: According to my theory, this should be written off.

Mr. LONG: That is what we are saying.

Mr. BALLARD: I say there are certain cases where it is not determinable whether a loan or an advance will necessarily be written off, and to what extent it may have to be written off. One of these, of course, is Expo. You say in certain of the expenditures the deficit will be so much and, therefore, we must write off the—

Mr. LONG: If the deficit is going to be so much, you certainly have to have appropriations from someone to cover that deficit.

Mr. BALLARD: We do not know what the deficit is going to be though.

Mr. LONG: Oh yes. The governor in council has accepted—

Mr. HENDERSON: The estimate is \$81 million.

Mr. BALLARD: What will happen if the deficit turns out to be \$50 million rather than \$81 million?

Mr. LONG: Then you will have a recovery. However, the experience so far has been that it is going up, not coming down.

Mr. BALLARD: We expect the deficit will be much more, but I am stating a hypothetical case of what happens if the deficit is \$50 million?

Mr. LONG: Then there is no harm done; we have all kinds of recoveries every year from the previous year's expenditures. This goes to revenue when you do get such a windfall.

Mr. BALLARD: I might say from an accounting point of view, this is a more desirable way of handling it.

The CHAIRMAN: Did you want to interject, Mr. Bryce.

Mr. BRYCE: I did not really want to interject, Mr. Chairman. This is a large subject and I do not want to follow up all the leads which are open in Mr. Long's statement. However, I think it is fair to say that to use the 1920 statement is an oversimplification now because the kind of problem we had then did not really exist; we did not have this profusion of crown companies in those days. As Mr. Balls has indicated, that is why it really is desirable to bring up to date and evolve a pattern or a series of tests in the light of present circumstances.

Mr. LONG: There can be no disagreeing with that. The balance sheet is a mess; we will all agree with that, but these new particular things—

Mr. BRYCE: May I finish, Mr. Chairman?

Mr. LONG: I am sorry I thought you were finished.

The CHAIRMAN: Please continue, Mr. Bryce.

Mr. BRYCE: Again, in all these cases there is revenue from outside. There are none of these cases where we are wholly dependent upon appropriations. It is not the travesty that is suggested here.

Questions were raised about financing in advance of need of the National Capital Commission, which is a different subject. There it is merely a question of carrying it as a loan until the land is put into government use. Then the value of the land is charged into that final use and the loan is repaid out of the proceeds of that. I think we ought to have a look at this old statement which we have been repeating in the Public Accounts and bring it up to date. We will try to have this properly done for the committee next year, and we will consult the Audit office concerning it.

The CHAIRMAN: I think we have spent enough time on this matter. We have had a good review on it.

We will now proceed to paragraph 168, accounts receivable. This was brought about by the recommendation of public accounts.

168. *Accounts receivable.* Taxes and sundry accounts receivable are not recorded as assets in the Statement of Assets and Liabilities.

Information regarding the total accounts receivable of each department at the year-end, in comparison with the corresponding total at the close of the preceding year, is given in the several departmental sections of Volume II of the Public Accounts.

The Public Accounts Committee in its Sixth Report 1964 expressed agreement with our observation that it would be more informative to Parliament were a summary showing the overall total of all accounts receivable due to the Government of Canada, whether in memorandum form or recorded on the books, included in the Public Accounts each year. As a result, a summary similar to the following is included for the first time in Volume I of the Public Accounts for 1964-65:

Department	Current year	Previous Years		Total
		Collectable	Uncollectable	
Agriculture	\$ 440,218	\$ 849,636	\$ 21,258	\$ 1,311,112
Citizenship and Immigration	196,564	442,968	57,733	697,265
Defence Production	4,270	1,768	259,329	265,367
External Affairs	333,210	482,231	14,700	830,141
Finance	21,198	7,816	59,922	88,936
Justice	134,194	—	222	134,416
Labour	120	—	17,465	17,585
Unemployment Insurance Commission	54,798	127	469	55,394
Fund	4,873,774*	—	—	4,873,774
Mines and Technical Surveys	61,222	15,048	595	76,865
National Defence	4,514,477	2,502,328	88,650	7,105,455
National Health and Welfare	1,328,976	281,547	72,710	1,683,233
National Research Council	108,535	12,201	561	121,297
National Revenue—				
Customs and Excise Division	13,338,855*	—	1,241,672*	14,580,527
Taxation Division	175,121,388*	—	45,137,672*	220,259,060
Northern Affairs and National Resources	187,342	412,228	4,075	603,645
Public Printing and Stationery	129,766	2,035	—	131,801
Public Works	627,415	484,939	10,959	1,123,313
Royal Canadian Mounted Police	385,548	5,913	2,003	393,464
Trade and Commerce	134,013	9,069	11,566	154,648
Transport	3,169,176	600,885	802	3,770,863
Veterans Affairs	3,784,409	2,038,803	369,096	6,192,308
Other departments	29,956	11,157	9,103	50,216
	<u>\$ 208,979,424</u>	<u>\$ 8,160,699</u>	<u>\$ 47,380,562</u>	<u>\$ 264,520,685</u>

* These amounts relate to both current and previous years.

The accounts receivable totals shown in the above table were the amounts remaining after certain uncollectable debts

(a) of \$1,000 or less had been deleted from the accounts during the year under authority of section 23 of the Financial Administration Act, and

(b) in excess of \$1,000 had been written off under authority of Department of Finance Vote 22d of Appropriation Act No. 2, 1965.

A summary of these deletions by departments is as follows:

Department	Items	Deleted under authority of			Total deleted
		Financial Administration Act, sec. 23	Finance Vote 22d		
Agriculture	440	\$ 5,125	\$ 14,791	\$	19,916
Citizenship and Immigration	1,128	172,972	88,174		261,146
Mines and Technical Surveys	35	189	148,759		148,948
National Defence	460	8,123	175,568		183,691
National Health and Welfare	307	82,473	29,193		111,666
National Revenue—					
Customs and Excise Division	156	2,997	—		2,997
Taxation Division	957	299,827	12,070		311,897
Northern Affairs and National Resources	47	7,934	—		7,934
Public Works	98	13,133	—		13,133
Royal Canadian Mounted Police ..	38	8,599	—		8,599
Veterans Affairs	879	87,983	175,430		263,413
Other departments	145	2,998	—		2,998
	4,690	\$ 692,353	\$ 643,985	\$	1,336,338

We have drawn attention in the past several years to the fact that whether accounts receivable are kept in memorandum form or recorded as an asset in the Statement of Assets and Liabilities, they are nonetheless debts due to the Crown, and their accurate recording and ultimate collection are primarily responsibilities of the departments concerned. While we have again found that most departments having extensive accounts receivable keep their records accurately and efficiently, this does not apply in the case of some departments where accounts receivable as such are not an important factor. We believe this situation to be largely due to the failure of these departments to maintain controlling accounts and to provide for an effective internal verification of the accounts by officers other than those responsible for keeping the accounts. Such weaknesses in internal control should be remedied in order to reduce the possibility of accounts being tampered with and collections misappropriated.

The Public Accounts Committee expressed concern over this situation and in its Sixth Report 1964 (see Appendix 1, item 28) suggested that the Treasury Board have the matter studied with a view to ensuring that amounts due to the Crown are adequately recorded and that an accounts receivable control system is instituted. The Committee also stated that collection procedures must be tightened up and firmly enforced.

The Treasury Board is presently developing a policy on revenue control designed to eliminate the conditions referred to by the Auditor General and the Public Accounts Committee and also by the Royal Commission on Government Organization.

Mr. HENDERSON: The only point which I think concerns the Department of Finance is the statement of the committee's recommendation in its Sixth Report 1964 that a summary showing the overall total of all accounts receivable due to the government of Canada, whether in memorandum form or recorded on the books, should be included in the Public Accounts each year. This was done for the first time in Volume 1 of the Public Accounts for 1964-65. This arose out of subcommittee discussions which took place in 1964.

The CHAIRMAN: I have one question. The uncollectable amount is \$47,380,-562. What year does that date back to?

Mr. HENDERSON: Some of these go back quite a long time. You will see the bulk of that is in the Taxation Division; it is income tax.

The CHAIRMAN: But we do not know what year this started from. It gives the current year.

Mr. HENDERSON: That is right. It goes back many years.

The CHAIRMAN: I have one other question. The Department of Finance shows an uncollectable figure of \$59,922. By way of interest, what would that be made up of in the Department of Finance?

Mr. BALLS: I do not have the details, Mr. Chairman. I can give you a memorandum, and pass this along to you.

The CHAIRMAN: Are there any further questions?

Mr. BALLARD: Mr. Henderson, in part of your explanation here you say that controlling accounts are not maintained in some of the departments. Did your auditors make their own reconciliation, that is more or less a controlling account for your own satisfaction?

Mr. HENDERSON: Where we could do so, yes, but we looked at the department's internal controls and we found that this was not being done. It is a matter of some concern because many of these accounts receivable, as you will recognize, are memorandum ones. I think you will agree that this is quite dangerous in terms of the ease with which an account can be removed; the money does not necessarily get credited if you do not have it under control.

This matter was brought up in 1964 at the time Dr. Davidson, the Secretary of the Treasury Board, was the witness, and he undertook to examine the matter. As a matter of fact, just about two weeks ago, what is called a management improvement circular came out from the Treasury Board spelling out the steps to be taken and how to put this straight, and it opens up with a quotation of the recommendation of the Public Accounts Committee. It gives that as a background, and then they proceed to issue instructions. This goes to the deputy head and to the people in all of the departments. It has taken a long time to be issued. We have been watching this and it has been definitely unsatisfactory. It has been all right in some of the larger departments.

However, the smaller ones are not necessarily in the business of invoicing, and if accounts are owing they are just kept in memorandum form.

Mr. BALLARD: In your opinion, sir, does this directive institute a satisfactory system of internal control?

Mr. HENDERSON: I have not had an opportunity to study it closely yet, but we shall most certainly be looking at that in relationship to the situations we have noted, and if it is not satisfactory we shall be drawing it to their attention.

The CHAIRMAN: It seems beyond comprehension that a department would operate without an accounts receivable system; I just cannot imagine it. Some departments must handle an awful lot of money. It is just a matter of having a controlled figure to start from, and everything which is invoiced is added to that; as they are paid they are deducted from it and your control is established. This is not being done in all departments, is it?

Mr. HENDERSON: I would like to ask a question of Mr. Balls while he is here. I am not too clear as to the point of responsibility, but would your treasury officers, who are stationed in all of the departments not have had some responsibility for seeing that effective accounts receivable records are kept, and that these points are looked after?

Mr. BALLS: The responsibility for expenditure, Mr. Chairman, rests with the Comptroller, and expenditures of all departments are made under his direction by his officers. The responsibility for revenue rests with the departmental officials. In some cases though—and there is provision in the Financial Administration Act—departments have asked my officers to provide accounting services in connection with the revenue.

The management improvement circular, which Mr. Henderson mentioned and which is dated April 28, 1966, on the subject of revenue and accounts receivable control, which I have in my hand, covers, I think very effectively the substantive requirements of a satisfactory revenue system.

In regard to Mr. Ballard's point, there is a specific requirement on page 3 under "Records Control Account" which says:

The books of accounts must contain a control account to which is charged the total of amounts set up as accounts receivable and to which is credited the total of all amounts credited to individual accounts receivable.

I think in this policy statement, Mr. Chairman, you have the basis for a satisfactory revenue control system.

The CHAIRMAN: Whose responsibility is it to see that this is carried out?

Mr. BALLS: It is the responsibility of the Treasury Board. I am sure Dr. Davidson may wish to speak to this, because it was issued from his office.

The CHAIRMAN: And the crown has operated all these years without a system similar to that being set up?

Mr. BALLS: I would think some departments would practise this, Mr. Chairman. Many of the departments, particularly the larger ones, have quite sophisticated systems of accounts receivable in operation.

Mr. Henderson: You say it will be the responsibility in the future of the Treasury Board to carry this out. I still am not clear as to why your officers would not have some responsibility here; why you would not make it your business to see this is carried out. They do not have people stationed in the departments, do they? Who is going to oversee that this is done?

Mr. BALLS: I do not think I said, Mr. Chairman, that it would be the responsibility of the Treasury board to carry it out. I think it is the responsibility of the Treasury Board to see that it is carried out. It has a responsibility for financial management and it will certainly look to the departments to ensure that they have proper accounts receivable systems and revenue control systems. Where we are servicing the departments in the revenue area, we certainly will take that responsibility in servicing those departments, but under the statute it is not our responsibility to control revenues.

In some cases we may be asked to provide revenue services. Section 15 of the Financial Administration Act says:

On the request of the appropriate Minister and with the approval of the Minister of Finance, the comptroller may (a) provide accounting and other services in connection with the collection and accounting of public money for department, and (b) examine the collecting and accounting practices applied in a department and report thereon to the appropriate Minister.

Both of these are on the request of the appropriate Minister.

The CHAIRMAN: Our committee will likely be making a recommendation along this line. By the same token, I think it would be very difficult for the Auditor General to know all moneys were being accounted for unless there was a control system of some kind. I believe the Auditor General's department would be most anxious that a good tight system should be instituted, and I am wondering why that department has not been pushing this before now.

Mr. HENDERSON: Which department do you mean, Mr. Chairman?

The CHAIRMAN: The Auditor General's department.

Mr. HENDERSON: This observation has appeared in my report for previous years. As I say, it was discussed by this committee and Dr. Davidson in 1963, I think it was. The remedial action, however, was to be undertaken by Dr. Davidson and, as Mr. Balls says, it was only on April 28 of this year that the bulletin to which he has referred came out.

I would just like to add in closing, with reference to this item, that experience has taught me that unless someone is overseeing on a more or less day to day basis that instructions such as this are really going to be carried out, you can all too frequently find that they are not being followed.

It concerns me to learn that it is the responsibility of the Treasury Board because they do not have a large staff, and they do not have any auditors or people who go around. It is true they are concerned with the financial management, but they do not have any auditing services, and I hope all the departments will avail themselves of Mr. Balls' resident treasury staff.

The CHAIRMAN: When Dr. Davidson is before us, we will discuss this further with him.

Mr. FORBES: In 1964 the committee made a recommendation which is contained on the bottom of page 114: "The Committee also stated that collection procedures must be tightened up and firmly enforced." Is there any indication that this recommendation is being followed?

Mr. HENDERSON: That is one of the instructions contained, if I am not mistaken, in the Treasury Board bulletin to which Mr. Balls referred. There is a paragraph specifying that because the Treasury Board open that bulletin by quoting the recommendation of this committee. We, of course, shall be looking to see that that in fact is being done. However, I repeat again, it is the day to day supervision which is going to count in the early months of setting this up to see it gets launched on the right foot and that it will pay off.

Mr. BALLS: I have one further point on this. In the management improvement circular there is a paragraph under the heading of "Reporting for Public Accounts of Canada", and it states:

At the close of each fiscal year departments are required to forward to the Comptroller of the Treasury a statement of accounts receivable in such form as the Comptroller may designate.

This will provide, Mr. Chairman, that the material will be included in the Public Accounts and will be available for your scrutiny and, of course, for the reporting on by the Auditor General.

The CHAIRMAN: But it does not have much value unless it is a controllable figure; it does not mean anything unless it is controlled and tightened up.

Mr. HENDERSON: All of the steps enunciated there will have to be carried out if this procedure is to work. However, I am concerned about people not being watched or checked, in which case it does not get started.

Mr. BALLARD: Would it be possible, Mr. Balls, to put all of the accounts receivable on the computer over the data processing centre?

The CHAIRMAN: Do you mean for all of the departments?

Mr. BALLARD: Yes. We have the income tax on the computer and it seems to be working satisfactorily. Would it not be possible to put all receivables on this same computer?

Mr. BALLS: This is a question, Mr. Chairman, which I am not going to answer very dogmatically. I think it probably would be possible, but I would want to be sure that in using data processing facilities we are, in fact, improving our processes. The computer can provide you with a more expeditious, faster operation on a large scale mass system. It does not necessarily follow that the computer is the best thing for everything. It is possible, but it is something we would have to study very carefully, and this would require that the material would have to come in from each department through some central source and be compiled there. We must bear in mind at the same time that the departments still must maintain their responsibility for the collection of these receivables.

The CHAIRMAN: Paragraph 170 reads as follows:

170. *Cash on deposit in chartered banks.* Included in the item "Current assets" is an amount of \$682 million on deposit in bank

accounts. Of this amount \$634 million was on deposit in the chartered banks of Canada, \$31 million in the Bank of Canada and \$17 million in banks in London, New York, Paris and Bonn.

The balances on deposit in foreign bank accounts are working balances against which cheques are drawn and which do not earn interest. The Bank of Canada, in accordance with the provisions of section 19(e) of the Bank of Canada Act, R.S., c. 13, does not pay interest on deposits. However, profits of the Bank of Canada are paid to the Receiver General and placed to the credit of the Consolidated Revenue Fund.

Balances on deposit in the chartered banks in Canada in excess of an aggregate of \$100 million earn interest at the weekly average accepted treasury bill tender rate for the three months treasury bills, less 10 per cent, calculations being based on the minimum weekly balances. No interest was received on the aggregate of \$100 million which was kept on deposit in the chartered banks throughout the year 1964-65.

Mr. HENDERSON: The details as shown in this paragraph are the amount of funds on deposit in bank accounts. You will note that of the \$682 million on deposit in bank accounts, \$634 million was on deposit in the chartered banks of Canada. This morning we discussed, under paragraph 62, balances on deposit in the chartered banks of Canada in excess of an aggregate of \$100 million, how they earn interest at the weekly average accepted treasury bill tender rate for the three months treasury bills less 10 per cent, calculations being based on the minimum weekly balances. As you know, no interest was received on the aggregate of \$100 million. This will be coming up for the committee's consideration in due course.

The CHAIRMAN: I think Mr. Bryce answered that this morning.

Mr. HENDERSON: That is correct.

The CHAIRMAN: Paragraph 172 states:

172. *Sinking fund and other investments held for retirement of unmatured debt.* On August 10, 1964 the Minister of Finance purchased \$4.1 million of 2½ per cent Canada bonds payable in New York and due September 1, 1974 and \$1.8 million of a similar issue due on September 15, 1975. Interest earned on these bonds amounting to \$101,000 was credited to this asset account in error instead of being credited to revenue. Furthermore, an amortization adjustment of \$57,000 representing the portion of the discount on these bonds applicable to the year was not made. Consequently, this asset item is under-valued by \$158,000 and the Department of Finance revenue item "Return on Investments" is understated by a similar amount.

Mr. HENDERSON: In this note, I describe transactions, the treatment of which, it was discovered, to have been incorrect. As a consequence, the asset item is undervalued by \$158,000 and the Department of Finance revenue item, return on investments, understated by a similar amount. No harm has been done by this; it is just one of those things which inevitably creep in.

The CHAIRMAN: This was a mistake credited to assets account in error instead of being credited to revenue?

Mr. HENDERSON: That is right.

Mr. BALLS: Could I speak very briefly on that?

The CHAIRMAN: Yes. I would like to ask one question. Would that error be discovered by your internal audit system, or was it the Auditor General?

Mr. BALLS: I am not sure whether it was found by the Auditor General's office or by ourselves. We found it shortly after the books for the year were closed, but before we had prepared the Public Accounts. We then included a note in the Public Accounts calling attention to the fact that it is on page 737, and I advised the Auditor General in a letter dated December 16, 1965 that we would be so noting it in our Public Accounts. The adjustment was made in 1965-66.

The CHAIRMAN: We will now move to paragraph 173 which reads:

173. *Deferred charges—Unamortized portions of actuarial deficiencies.* The balances in these accounts represent the remaining portions of the actuarial deficiencies in the Canadian Forces Superannuation Account \$53,762,000, the Public Service Superannuation Account \$39,921,000, and the Royal Canadian Mounted Police Superannuation Account \$4,153,000, after one-fifth of the deficiencies which arose when general pay increases were authorized had been charged to expenditure in 1964-65 (see paragraph 63).

Mr. HENDERSON: This will also deal with one, two, three in 1964, deferred charges, unamortized portions of actuarial deficiencies. I suggest we do not spend any time here because the situation, as I told you, is up to date.

The CHAIRMAN: The next item is on paragraph 174:

174. *Suspense accounts.* Reference was made under the heading "Cheque Adjustment Suspense" in paragraph 124 of last year's Report to a balance of \$141,392 representing unidentified net differences which were encountered between 1942-43 and 1961-62 in reconciling paid cheques with the payments made to the banks. In 1964-65 this balance was written off to net debt under authority of Department of Finance Vote 27d, Appropriation Act No. 2, 1965.

Mr. HENDERSON: Paragraph 174 and its 1964 counterpart was 124. This is a situation which had existed over the 20 year period up to 1965. As is explained in paragraph 124 of my 1964 report, difficulties had been encountered in reconciling the paid cheques with the payments made to the banks which were exceeding the total value of the cheques being removed from the outstanding cheque lists. The difficulties arose mainly from the inability of an inexperienced staff to cope with the mounting volume and the inadequacies of the mechanical equipment in use at the time. The net differences were transferred to a suspense account, the total of which had reached a total of \$141,392 by March 31, 1964. This amount represented differences prior to April 1, 1962 when the introduction of electronic data processing equipment brought the situation under control.

The difference was transferred to this suspense account and, as indicated in note 174, the balance was written off to net debt under authority of Department of Finance, Vote 27d, Appropriation Act No. 2 in 1965.

The CHAIRMAN: May I ask, how is the reconciling of your paid cheques operating now?

Mr. BALLS: We now reconcile all the cheques issued drawn on the Receiver General by data processing equipment and, as indicated by the Auditor General, since the introduction of that electronic processing system it has been possible to reconcile the cheques with the issue lists to the cent.

The CHAIRMAN: That is wonderful. I think paragraphs 175, 176 and 177 can be taken together.

175. *Public Service Superannuation Account.* A statement of this Account appears in paragraph 159 of this report. In 1964-65 the Account was credited (and a deferred charge account was debited) with a special Government contribution of \$169,457,000 representing the total of: the actuarial deficiency in the Account as of December 31, 1962 with interest to December 31, 1964, amounting to \$119,556,000; the actuarial deficiency arising from salary increases authorized in 1963-64 with interest to December 31, 1964, amounting to \$30,506,000; and the actuarial deficiency of \$19,395,000 arising from salary increases authorized in 1964-65. As stated in paragraph 63, the deficiency of \$119,556,000 was written off to net debt during the year and one-fifth of the deficiency of \$49,901,000 resulting from salary increases authorized in 1963-64 and 1964-65 was charged to expenditure, leaving a balance of \$39,921,000 in the deferred charge account to be written off to expenditure over the next four years.

176. *Canadian Forces Superannuation Account.* A statement of this Account appears in paragraph 159 of this Report. In 1964-65 the Account was credited (and a deferred charge account was debited) with a special Government contribution of \$67,202,000 representing the amount of the actuarial deficiency in the Account arising from pay increases authorized for members of the forces during the year. As stated in paragraph 63, one-fifth of the deficiency was charged to expenditure, leaving a balance of \$53,762,000 in the deferred charge account to be written off to expenditure over the next four years.

177. *Royal Canadian Mounted Police Superannuation Account.* A statement of this Account appears in paragraph 159 of this report. In 1964-65 the Account was credited (and a deferred charge account was debited) with a special Government contribution of \$5,192,000 representing the amount of the actuarial deficiency in the Account arising from pay increases authorized for members of the Force during the year. As stated in paragraph 63, one-fifth of the deficiency was charged to expenditure, leaving a balance of \$4,153,000 in the deferred charge account to be written off to expenditure over the next four years.

Mr. HENDERSON: We can deal with all three paragraphs together, and I think also the companion paragraphs as noted for 1964. These situations are generally up to date and we discussed them this morning.

The CHAIRMAN: The next item is on page 187, paragraph 221:

221. *Royal Canadian Mint.* The Royal Canadian Mint operates under Part II of the Currency, Mint and Exchange Fund Act, R.S., c. 315, and provides "facilities for making coins of the currency of Canada, and for melting, assaying and refining gold".

Transactions in gold, silver and other metals acquired by the Mint for its operations are recorded in revolving fund accounts. The following is a summary of these accounts for the year in comparison with corresponding amounts for the preceding year:

	Year ended March 31	
	1965	1964
Inventories at beginning of year	\$29,401,000	\$27,212,000
Purchase—		
Gold	102,005,000	98,296,000
Silver	12,777,000	14,782,000
Other metals	3,487,000	1,675,000
	<u>118,269,000</u>	<u>114,753,000</u>
	147,670,000	141,965,000
Sales—		
Gold	104,825,000	96,072,000
Silver coin at face value	27,369,000	20,176,000
Other coin at face value	8,629,000	5,513,000
Silver bullion	57,000	86,000
Sundry	—	17,000
	<u>140,880,000</u>	<u>121,864,000</u>
Gold revaluation	11,000	1,000
	<u>140,891,000</u>	<u>121,865,000</u>
	6,779,000	20,100,000
Transfers to revenue—		
Gain on coinage operations	11,909,000	9,276,000
Gold refining gain	16,000	25,000
	<u>11,925,000</u>	<u>9,301,000</u>
Inventories at end of year	<u>\$18,704,000</u>	<u>\$29,401,000</u>

The Public Accounts record as revenue of the Department of Finance the transfer of \$11,925,000 from the revolving fund accounts and other Mint revenue of \$3,107,000, a total of \$15,032,000 for the year ended March 31, 1965 compared with \$10,624,000 for 1963-64. Offset against this are expenditures charged to parliamentary appropriations under the Department of Finance totalling \$2,662,000, comprising the following: administration, operation and maintenance, \$2,572,000 (\$2,192,000 in 1963-64); and construction or acquisition of equipment, \$90,000 (\$419,000 in 1963-64).

The net result is an excess of revenue over expenditure for the year 1964-65 of \$12,370,000 compared with \$8,013,000 for 1963-64, an increase of \$4,357,000. These recorded results do not, however, take into consideration such expenses as interest on funds employed or services provided without charge by other departments such as accommodation, security, contributions to the Public Service Superannuation Account, employees' surgical-medical insurance premiums, accounting and cheque issue services, and employee compensation payments.

During the year the gain on coinage operations increased by \$2,633,000 over the comparable figure for the previous year due to an increase of 217,397,779 in the number of coins issued, from 435,568,416 to 652,966,195 pieces, while sundry revenue decreased by \$51,000. Service fees increased by \$1,826,000 largely as a result of the greater number of uncirculated coin sets sold and an increase, effective January 1, 1965, in the selling price from \$3 to \$4 a set.

Mr. HENDERSON: This paragraph refers to the Royal Canadian Mint. It sets forth for each year the results of our examinations of the accounts of the Royal Canadian Mint. A summary of comparative figures is given in the paragraph which may be of some interest.

Paragraph 226 in the 1965 report is the up to date one respecting the custodian, and it reads as follows:

226. *The Custodian.* In accordance with Regulation 6 of the Revised Regulations respecting Trading with the Enemy (1943) as set out in the schedule to the Trading with the Enemy (Transitional Powers) Act, 1947, c. 24, the Secretary of State is appointed Custodian "to receive, hold, manage, release, dispose of and otherwise deal with all property which is reported to him, received or controlled by him or vested in him". Effective from May 15, 1964, the Deputy Registrar of Canada acts as the Deputy Custodian. The Custodian's Office is administered by an Assistant Deputy Custodian in Ottawa. A report on the audit of the Custodian's accounts for the year ended December 31, 1964 was made to the Secretary of State.

The assets vested in the Custodian, which were valued in accordance with bases explained in an addendum to the statement of assets and liabilities, decreased by \$771,000 to \$3,080,000 at December 31, 1964. A transfer of \$350,000 to the Minister of Finance for the War Claims Fund, and releases of assets valued at \$874,000 to former owners or their beneficiarries or other rightful claimants, offset in part by an appreciation of \$474,000 in the value of remaining vested assets, accounted for the greater part of the decrease.

Under the Regulations referred to above, the Custodian may charge against all property investigated, controlled or administered by him, whether it has been vested in him or not, a fee for services rendered not exceeding 2 per cent of the value of the property including the income therefrom. He is also permitted to employ such part of the property vested in him or the proceeds therefrom as may be necessary to pay the expenses incurred in the administration of the Regulations.

All fees and any income received from vested assets which consist of, or are converted into, cash or Government of Canada bonds are credited to the Custodian's Office Administration Account, from which all expenses of the Office are paid. Since becoming responsible for the audit of the Custodian's account in 1947, this Office has repeatedly drawn attention to this procedure because it is one which is not consistent with the treatment of income arising from other assets vested in the Custodian.

From September 2, 1939 to December 31, 1964 the Custodian has accumulated a surplus of \$4,700,000—largely invested in Government of Canada bonds—in his Office Administration Account. On September 22, 1965 we suggested to the Deputy Minister of Finance that consideration be given to whether the surplus cash resources being managed by the Custodian should be transferred to the Consolidated Revenue Fund, with the Custodian's administrative expenses being provided in future by parliamentary appropriation. Consideration was also invited to whether the other cash resources might be managed more effectively if they were held in an open account in the Consolidated Revenue Fund. We were informed that the suggestions would be examined.

The following is a summary of the income and expense of the Custodian for the year together with comparable figures for the preceding year:

	Year ended December 31	
	1964	1963
Income—		
Fees on assets released from administration ...\$	10,000	\$ 9,000
Interest on investments	206,000	199,000
Interest on bank deposits	9,000	16,000
	<u>225,000</u>	<u>224,000</u>
Expense—		
Salaries	81,000	108,000
Ex gratia payment	5,000	—
Other expense	12,000	11,000
	<u>98,000</u>	<u>119,000</u>
Surplus	<u>\$ 127,000</u>	<u>\$ 105,000</u>

The income from fees on assets released from administration did not increase proportionately with the value of assets released during the year, due to a comparatively large settlement having been made without fee. The increase in interest on investments was due mainly to an increase of \$11,000 in net discounts on purchases and sales of bonds offset by a reduction in interest earned for the year, whereas the decrease in bank interest resulted from the outflow of cash from among the vested assets as releases of assets from administration were effected. The decrease in salary costs resulted mainly from staff reductions that had been

effected during the prior year. The ex gratia payment was made by Executive order, on the recommendation of the Department of External Affairs, to the widow of a former diplomatic representative to Canada whose assets of like value had been seized by the Custodian, liquidated, and the proceeds transferred to the Minister of Finance for credit to the War Claims Fund.

With respect to the fourth paragraph, I believe I can say, Mr. Chairman, we have that matter under discussion now with the office of the Secretary of State. At the same time you will note that we suggested to Mr. Bryce that consideration be given as to whether the surplus cash resources being managed by the custodian should be transferred to the consolidated revenue fund with the custodian's administrative expenses being provided in future by parliamentary appropriations. I believe he has these suggestions under examination. I do not know whether he has anything to add at this time. The custodian functions under the Secretary of State.

Mr. BRYCE: I should say that I agree with the Auditor General on this matter. However, others are involved and we have not as yet got this thing worked out and settled. It is just one of those things which does not seem to be urgent, and most of what we do is.

The CHAIRMAN: There is one question I would like to ask. The income for the year was decreased because there was a comparatively large settlement made without fee. What settlement was made without fee, and to whom was it made?

Mr. HENDERSON: I do not know whether the departmental officials would have that or not. I believe we would have to obtain that and furnish the information to the committee at the next meeting. I would not like to trust my memory on that.

The CHAIRMAN: Would you have that, Mr. Bryce? It is stated that the income was down considerably because there was a large settlement made without a fee. My question was: Why was it made without a fee, and who was it made to?

Mr. BRYCE: This was in the custodian's office.

The CHAIRMAN: Could you give the committee that information?

Mr. BRYCE: I am not sure whether it is proper for us to do that or the Department of the Secretary of State. I think this is the sort of thing which is really their responsibility.

Mr. HENDERSON: We could ask the Secretary of State's office to furnish the committee with that information, if you wish.

Mr. LONG: I think this was quite normal, and we took no exception to it. There was a custodian in another country involved. The settlement would be with the claimants to the assets, of course, and it is a question of knowing if they were charged for whatever administration there was during the time the assets were held.

The CHAIRMAN: The act says that a fee of 2 per cent must be charged.

Mr. HENDERSON: I recollect looking into it, but it seems to me that the explanation had something to do with international relationships, or something of that nature. However, since you asked the question, I am sure the Secretary of State would wish to furnish the information you seek.

The CHAIRMAN: We will now proceed to paragraph 228:

228. *Exchange Fund Account.* The Exchange Fund Account, which was originally established by the Exchange Fund Act, 1935, c.60, "to aid in the control and protection of the external value of the Canadian monetary unit", and continued by the Foreign Exchange Control Act, 1946, c.53, now operates under Part III of the Currency, Mint and Exchange Fund Act, R.S., c.315.

Pursuant to section 27 of the Currency, Mint and Exchange Fund Act we have audited the Exchange Fund Account and the transactions in connection therewith for the year ended December 31, 1964, and have addressed a report thereon to the Minister of Finance. This section also requires a certificate to be given annually to Parliament and I now certify that, in my opinion, the transactions in connection with the Account have been in accordance with the provisions of the Act and the records of the Account show truly and clearly the state of the Account.

The following is a summary of the transactions in the Account for the last two years:

	Year ended December 31	
	1964	1963
Balance at January 1	\$ 2,751,594,000	\$ 2,686,227,000
Deduct:		
Paid into Consolidated Revenue Fund in respect of previous year's earnings	62,594,000	35,227,000
	<u>2,689,000,000</u>	<u>2,651,000,000</u>
Add:		
Advances (net)	48,000,000	38,000,000
Earnings on investments (to be paid into the Consolidated Revenue Fund)	63,552,000	62,594,000
Balance at December 31	<u>\$ 2,800,552,000</u>	<u>\$ 2,751,594,000</u>

	Year ended December 31	
	1964	1963
Represented by:		
Canadian dollars	\$ 1,241,000	\$ 78,000
United States dollars and securities	1,705,869,000	1,898,188,000
International Monetary Fund note	16,236,000	—
Gold	1,108,876,000	883,500,000
Suspense account	62,000	110,000
	<hr/>	<hr/>
	2,832,284,000	2,781,876,000
Surplus	31,732,000	30,282,000
	<hr/>	<hr/>
	\$ 2,800,552,000	\$ 2,751,594,000
	<hr/>	<hr/>

The United States dollar holdings were valued at \$1.08108 (par) at December 31, 1964 and as a result the surplus was \$19,195,000 greater than if the closing market rate of \$1.07375 had been used.

In our 1964 Report we referred to our previous recommendation with respect to the Exchange Fund Account and to the statement of the Minister of Finance to the Public Accounts Committee on July 21, 1964. The Public Accounts Committee made the following recommendation (Appendix 1, item 23) in its Sixth Report 1964:

The Committee is glad to note that in future, commencing with this year or as soon as the necessary parliamentary authority is obtained, the annual balance of profit or loss arising from trading operations and investment, including interest and discount on securities, trading profits and losses on purchases and sales of foreign exchange, gold and securities, and the net valuation adjustments on unmatched purchases or sales during the year, is to be transferred to the Consolidate Revenue Fund.

The Committee approves of the Minister's proposal that the surplus of \$30.3 million at December 31, 1963 be left in the fund to serve as a reserve against any future revaluation losses.

The Committee understands the reluctance of the Minister to decide today whether future profits or losses arising from changes in exchange rates should be transferred to the Consolidated Revenue Fund at each year-end because of the possibility of these causing serious distortions in the budgetary accounts. However, the Committee also noted the statement by the Auditor General that the present surplus would be much larger had past exchange losses been charged to expenditure as they occurred, and that a drop of as little as two cents in value of the United States dollar can again cause the Exchange Fund Account to go into a deficit position. It therefore recommends that in the event the holdings of the Account drop in

value by an amount sufficient to eliminate the above-mentioned surplus and create a deficit in the Account, the Minister of Finance of the day give immediate consideration to the elimination of the deficit in order to maintain the full value of the advances made from the Consolidated Revenue Fund to the Exchange Fund Account.

Parliamentary authority to transfer to the Consolidated Revenue Fund the net profit arising from trading operations and investment, as described in the Committee's Sixth Report 1964 referred to above, was not obtained during the year and accordingly the net profit on these transactions in 1964 is reflected in the surplus of the Account which increased by \$1,450,000 from \$30,282,000 at December 31, 1963 to \$31,-732,000 at December 31, 1964.

Mr. HENDERSON: This is the exchange fund account. As you will recall, this was the subject of item 23 in the 1966 follow-up report. This is another matter which Mr. Bryce discussed with you in 1964, at which time he submitted a helpful statement prepared by the Minister of Finance at the request of the committee.

You will recall the committee made the recommendation that in the event the holdings of the account drop in value by an amount sufficient to eliminate the surplus of \$30.3 million at December 31, 1963 and thereby create a deficit in the account, the Minister of Finance of the day give immediate consideration to the elimination of the deficit in order to maintain the full value of the advances made from the consolidated revenue fund to the exchange fund account.

In this paragraph you will see a summary of the position of the exchange fund account. It is given at the bottom of page 195 with particulars given at the top of page 196 as to what the fund is made up of. The members will note that the surplus at December 31, 1964 has actually changed little from the \$30.3 million figure which I gave you at December 31, 1963. Mr. Bryce may have some comment to make here, but it will be noted that the holdings have not dropped in value and, therefore, the problem which you posed has not arisen.

The CHAIRMAN: Do you have any comment, Mr. Bryce? Mr. Balls, do you have a comment?

Mr. BALLS: I would like to speak to that. I understand that an appropriation item will be proposed by the supplementary estimates of the Department of Finance for this year which will provide authority for the transfer of profits for 1964 and subsequent years to the consolidated revenue fund. At the first opportunity when the Currency, Mint and Exchange Fund Act is opened for amendment, this provision will then be included in that statute.

The CHAIRMAN: We are ready to proceed with paragraph 234 on page 201:

234. *Royal Canadian Mint stocks.* The Royal Canadian Mint is a branch of the Department of Finance and its revenue and expenditure accordingly form part of, and are examined with, departmental revenue and expenditure. However, section 20 of the Currency, Mint and Exchange Fund Act, R.S., c. 315, requires that "the Auditor General shall, at least once in each year, inspect the store of bullion and coin at the Mint". We inspected these stores as at January 31, 1965 and reported

thereon to the Deputy Minister of Finance. The stocks of bullion and metals at cost, and coin at face value, held by the Mint at January 31, 1965 amounted to \$16,946,000 comprising: gold \$2,812,000, silver \$13,-272,000, bronze \$723,000, nickel \$93,000, and other metals \$46,000.

Mr. HENDERSON: A paragraph on this subject is placed in each of my annual reports, Mr. Chairman, in order to record how, under section 2, of the Currency, Mint and Exchange Fund Act, I have inspected the storage of bullion and coin at the mint.

I might now refer to an item in appendix 1, Mr. Chairman, which is a follow-up report having to do with assistance to the provinces:

19. ASSISTANCE TO PROVINCES BY THE ARMED FORCES IN CIVIL EMERGENCIES. The Committee noted that certain provinces had not settled outstanding accounts with the Department of National Defence relating to assistance provided by the Armed Forces in civil emergencies in prior years. It also noted that as the Department had not been successful in collecting the accounts, they had been referred to the Executive for direction but such direction had not as yet been received. The Committee directed the Auditor General to inform it of the final outcome of these matters.

Mr. Bryce was good enough to furnish me with some information on this matter by letter on June 6, at the time he was writing about the town of Oromocto loans. Would you care to advise the committee about that, Mr. Bryce?

Mr. BRYCE: This is what I wrote to the Auditor General:

There is nothing further to report at this time as regards the outstanding accounts owed by several provinces. The treasury board has considered the matter on several occasions, but has not yet come to a decision as to whether and how the accounts should be collected or alternatively to recommend they be written off. The general policy of federal assistance to provincial governments in dealing with disasters is again under consideration as a result of the Red River flood, and it is hoped that principles can be established that will lay down in advance the nature and amount of such assistance under various circumstances. Consideration will be given to these outstanding accounts in the light of such principles.

It is terribly hard to work out a sensible set of rules to govern what help we should give in emergencies. We have a great deal of precedence, and they take place under conditions where you cannot really foresee exactly what the scale and nature of the damage involved is going to be. We have quite a number of cases in the past to try to put into some recognizable pattern.

We have had occasion to review this in connection with the flood of the Red River this year and out of that we will, as the committee I am sure recognizes, be asking Parliament for authority to pay amounts to Manitoba to meet a share of the costs incurred in fighting the flood and making good the damage, as was announced some weeks ago at the time of the flood.

I hope we can get a policy which can be laid down in advance so that every time a disaster like this occurs, we do not have to contrive some formula or arrangement which looks fair in the light of all the precedence. When we try to

codify it we always run into difficulty. This is all background to say that when we do that the treasury board thinks it will be in a better position to decide what to do with these outstanding accounts.

The CHAIRMAN: I suppose you discussed this at your Dominion-Provincial Conference. Is that the place where this would be discussed?

Mr. BRYCE: Well, most of these are bilateral payments and problems. Many of the provinces do not have any of these at all. I have forgotten the details of this particular account, but there would be some virtue in dealing with it as a general proposition, and if we can get a general formula I expect we would do that.

The CHAIRMAN: In the meantime, we are helping our neighbours and are being good samaritans.

Mr. BALLARD: Does this include such things as RCAF rescue missions? The Manitoba flood is easy to define, but what about air force rescue searching, and so on?

Mr. BRYCE: I think a number of these relate to large forest fires. It is mainly accounts with regard to Newfoundland and New Brunswick arising out of forest fires.

The CHAIRMAN: This is another item, Mr. Ballard, which the members should have thought about when we advanced that \$8 million to Newfoundland at the time it was being debated on the floor of the House a few weeks ago.

We will now proceed to item numbers 25 and 26, and ask Mr. Long to speak to these.

25. PENSION INCREASED BY PAYMENT OF TWO SALARIES. The Committee stated it expects to see suitable amending legislation introduced in due course to protect the Public Service Superannuation Account from excessive annuity charges and requested the Auditor General to keep it fully informed.
26. RECIPROCAL TRANSFER AGREEMENTS FOR SUPERANNUATION BENEFITS. The Committee suggested that when the Public Service Superannuation Act is next amended a suitable amendment be introduced which will provide for the disposition of any excess amounts of contributions in reciprocal transfer cases.

Mr. LONG: The items under 25 and 26 have to do with the Public Service Superannuation Act. We heard from Mr. Balls this morning that both of these, I believe, have been fixed up in Bill C-193. Two items which have been covered in that bill were positive changes in the act which dealt with the problems referred to in the recommendations.

Do I understand correctly that item 25, namely pension increased by payment of two salaries, is now left with the governor in council, and it does not necessarily mean that there will not be two salaries considered for pension purposes in future?

Mr. BALLS: The clause of the bill, which is clause 19(4), introduces a new section, namely 30(1)(1b), which provides amongst other things that the governor in council will have power to determine the amount which should be

deemed to be the salary of a person for the purposes of the Public Service Superannuation Act. I think your interpretation, Mr. Long, is correct. The governor in council will determine what the salary will be in such cases when a person is in receipt of two salaries.

Mr. LONG: The point I had was that the other recommendations of the committee have been positively dealt with, and what happened before cannot happen again. In this particular case it might happen again, that is the governor in council might approve a similar case.

Mr. BALLS: It would then be the approved salary for the purposes of the act.

Mr. BRYCE: I would suggest, Mr. Chairman, that the governor in council would be quite prepared to accept responsibility before this committee or the House for such a decision.

The CHAIRMAN: We discussed item No. 27 this morning; it has been handled at great length, but no decision reached.

Mr. BALLS: Mr. Chairman, there is one item which I would like to raise. In the ninth report of the Committee, which was tabled in the House of Commons on March 15, 1965, having to do with the recommendations of this committee regarding the form and content of Public Accounts, there was a recommendation to the effect that your committee further recommends that listings of the travelling expenses of employees in excess of \$1,000 and payments to suppliers and contractors in excess of \$100,000 be prepared annually for the information of the committee. There was a further communication from the then minister of finance, Mr. Gordon, to Mr. Baldwin, who was then the Chairman of this committee, which included inter alia, in regard to education leave costs this:

Arrangements are being made for the Comptroller of the Treasury to prepare a statement of the full cost of educational leave during the fiscal year 1963-64. This information will not have been assembled in sufficient time for inclusion in Public Accounts and therefore a separate paper containing this information will be tabled before the Public Accounts Committee. Consideration is to be given to the most appropriate method of dealing with the problems of training costs, having regard to the future form of estimates and the desirability of giving greater authority to the departments.

Subsequent to 1963-64 this information in regard to educational costs is in the Public Accounts. However, in conformity with the requirements, Mr. Chairman, of the report to the committee and the Minister's undertaking, I have here the statement and I wonder if I could present it to you. If it is your wish, I can see to it that there are sufficient copies of it for all members of the committee.

I would like to add that while the original intent of the recommendations of the Public Accounts Committee was to save costs in the production of the Public Accounts and the printing of Public Accounts, the preparation of this does entail very substantial administrative costs in its production. We are happy to produce it, but if, after having reviewed it, you feel it is no longer necessary, we can save a considerable amount of money by its discontinuance. I would ask Mr.

Chairman, if the committee might give consideration to this to determine what its requirements are. I estimate that we could save approximately \$10,000.

The CHAIRMAN: Thank you, Mr. Balls. Rather than have it printed for each member of the committee—it is quite elaborately done—I would suggest that any member of the committee who wishes to see it can get it from our secretary, who will keep a list of those who have it and its return.

Going on from there, the public accounts did recommend that we remove, as you stated, those expenditures in travelling over \$1,000, wages and so on. It has been prepared in this form for the use of the committee to see. The committee's original idea was to cut it out of Public Accounts and, as I understand it, there have been no inquiries from people asking why it was deleted. Therefore, it has not been missed out of Public Accounts.

Mr. BALLS: At the time these recommendations were acted upon I was authorized by the Minister to say that if any requests for information are received from members in regard to material that has been deleted from the Public Accounts, we would arrange to make this available to members. I have had no such requests in regard to any of the matters deleted from the Public Accounts.

The CHAIRMAN: Is there any further discussion on this? I do not think the committee want to go to the expense of \$10,000 to prepare that list after we decided originally to cut it out of Public Accounts.

Mr. BALLS: I could readily provide you with sufficient copies of that particular document, Mr. Chairman, for distribution to the members if you wish; they are ready.

Mr. BALLARD: I think we should accept that offer, Mr. Chairman.

The CHAIRMAN: If that can be done without too much cost or trouble, we will request one for each member.

Please remember, gentlemen, that on Tuesday morning at 11 o'clock—with particular interest to our western members—we will deal with the Department of Agriculture, PFRA. I would ask that you pass the word along to all the agricultural members to come and sit in, even though they are not members of the committee.

The meeting is now adjourned.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

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and/or a translation into English of the French.

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LÉON-J. RAYMOND,
The Clerk of the House.

76
HOUSE OF COMMONS
First Session—Twenty-seventh Parliament
1966



STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 17

TUESDAY, JUNE 21, 1966

Public Accounts, Volumes I, II and III (1964 and 1965)

Reports of the Auditor General to the House of Commons (1964 and 1965)

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Messrs. Long and Stokes of the Auditor General's office; *From the Department of Agriculture:* Mr. S. C. Barry, Deputy Minister; Mr. H. S. Riddell, Director, Prairie Farm Assistance Administration; Mr. S. B. Williams, Assistant Deputy Minister (Production and Marketing) and Chairman, Agricultural Stabilization Board; *From the Board of Grain Commissioners:* Mr. F. F. Hamilton, Chief Commissioner and Mr. W. J. MacLeod, Secretary.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,	Mr. Gilbert,	*Mr. Southam,
Mr. Ballard,	Mr. Leblanc (<i>Laurier</i>),	Mr. Stafford,
Mr. Bigg,	Mr. McLean	Mr. Tardif,
Mr. Cameron	(<i>Charlotte</i>),	Mr. Thomas (<i>Maison-</i>
(<i>High Park</i>),	Mr. Morison,	<i>neuve-Rosemont</i>),
Mr. Dionne,	Mr. Muir (<i>Lisgar</i>),	Mr. Tremblay,
Mr. Flemming,	Mr. Noble,	Mr. Tucker—(24).
Mr. Forbes,	Mr. Racine,	
Mr. Gendron,	Mr. Schreyer,	

(Quorum 10)

J. H. Bennett,

Acting Clerk of the Committee.

*Mr. Southam replaced Mr. Thomas (*Middlesex West*) on June 17, 1966.

ORDER OF REFERENCE

FRIDAY, June 17, 1966.

Ordered,—That the name of Mr. Southam be substituted for that of Mr. Thomas (Middlesex West), on the Standing Committee on Public Accounts.

Attest.

LÉON-J. RAYMOND,
The Clerk of the House.

MINUTES OF PROCEEDINGS

TUESDAY, June 21, 1966.
(24)

The Standing Committee on Public Accounts met this day at 11:12 a.m. The Chairman, Mr. A. D. Hales, presided.

Members present: Messrs. Baldwin, Ballard, Bigg, Flemming, Gendron, Hales, Leblanc (*Laurier*), Lefebvre, McLean (*Charlotte*), Southam, Thomas (*Maisonneuve-Rosemont*), Tucker (12).

Also present: Mr. Fane, M.P.

In attendance: Mr. A. M. Henderson, Auditor General of Canada; and Messrs. Long, Stokes, Laroche, Sayers and Millward of the Auditor General's Staff; Mr. S. C. Barry, Deputy Minister of Agriculture; Mr. W. R. Bird, Director, Crop Insurance; Mr. H. S. Riddell, Director, Prairie Farm Assistance Administration; Mr. J. S. Parker, Director General, Departmental Administration; Mr. S. B. Williams, Assistant Deputy Minister (Production and Marketing) and Chairman, Agricultural Stabilization Board; Mr. F. F. Hamilton, Chief Commissioner, Board of Grain Commissioners; and Mr. W. J. MacLeod, Secretary to the Board of Grain Commissioners.

The Chairman welcomed Mr. Southam, replacing Mr. Thomas (*Middlesex West*), to the Committee and Mr. Gérard Wolff, a senior officer from La Cour des Comptes of France with the Auditors General's office under an exchange agreement.

The Chairman introduced Mr. Barry, Deputy Minister of Agriculture, Department of Agriculture officials and the Chief Commissioner of the Board of Grain Commissioners, who were examined on the following items from the Auditor General's Reports, 1964 and 1965:

Paragraph 46, 1964 Report	}	Prairie Farm Emergency Fund.
Paragraph 52, 1965 Report		
Paragraph 53, 1965 Report		Prairie Farm Rehabilitation Administration— Loss arising from delay in acceptance of offer to purchase land.
Paragraph 54, 1965 Report		Losses on advances for construction of potato warehouses.
Paragraph 121, 1964 Report	}	Agricultural Commodities Stabilization Account.
Paragraph 171, 1965 Report		
Paragraph 127, 1964 Report		Suspense Accounts: P.F.R.A. Community Pas- tures—payments to municipalities.
Paragraph 162, 1964 Report	}	Agricultural Products Board.
Paragraph 212, 1965 Report		

Paragraph 163, 1964 Report }	Agricultural Stabilization Board (memorandum to follow). (<i>See Minutes of Proceedings and Evidence, June 28, 1966, also Appendix "6"</i>). Contract Form of the Coopérative Fédérée de Québec tabled as <i>Exhibit XI</i> .
Paragraph 213, 1965 Report }	
Paragraph 165, 1964 Report }	Board of Grain Commissioners for Canada.
Paragraph 215, 1965 Report }	
Paragraph 166, 1964 Report }	Canadian Government Elevators.
Paragraph 216, 1965 Report }	

At 1:05 p.m., the Committee adjourned to the call of the Chair.

J. H. Bennett,
Acting Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, June 21, 1966.

● (11.12 a.m.)

The CHAIRMAN: Gentlemen, we have a quorum. Before we proceed with the Department of Agriculture, I would like to welcome Mr. Richard Southam to our committee this morning who is replacing Mr. W. Thomas (Middlesex West) who is absent for about ten days due to an international conference which he is attending.

I am sure the members of the Committee will be interested to know that, accompanying the members of the staff of the Auditor General, present today, is Mr. Gérard Wolff, a senior officer of La Cour de Comptes, the court of Accounts of France. Mr. Wolff is spending six months with the Office of the Auditor General in Canada under an exchange agreement made with the French Court of Accounts last year. We welcome you, sir. Thank you.

Now gentlemen, will you turn to the 1965 Auditor General's Report, page 24, paragraph 52, which has to do with the Prairie Farm Emergency Fund. I will ask Mr. Henderson to introduce the subject.

52. *Prairie Farm Emergency Fund.* The deficit in the operations of this Fund during the year was \$367,000 compared with deficits of \$1,073,000 and \$7,295,000 in 1964 and 1963.

The Fund operates as a special account within the Consolidated Revenue Fund to record transactions under the Prairie Farm Assistance Act. R.S., c.213. Under the Act a levy of 1 per cent is imposed on the price of grain purchased by licensees under the Canada Grain Act and the moneys collected, which totalled \$10,238,000 during the past year, are credited to the account. Awards are made to eligible farmers in areas affected by crop failure in the provinces of Manitoba, Saskatchewan and Alberta and the Peace River District of British Columbia. During the year awards amounted to \$10,605,000 and the \$367,000 by which these exceeded the revenue from the 1 per cent levy was charged to Department of Agriculture Vote 75d.

The Act provides assistance to farmers where a general crop failure has occurred. The minimum area that can normally be considered a general crop failure area is an entire township, but section 6(b) provides that a rectangular block of sections, having an area of not less than one-third of a township, can be declared eligible for an award as though it were a complete township. Under section 6(a) additional sections of land that lie alongside of the boundary of an eligible township can be added to the township. It was the opinion of the Deputy Minister of Justice that a block of land which is eligible for an award under section 6(b) cannot be regarded as an eligible township for the purposes of making other sections of land having a side that lies along its boundary eligible for an award under section 6(a). Nevertheless, during the period

December 1, 1964 to March 31, 1965 some \$909,000 was paid to farmers in respect of crop failures on land purportedly under section 6(a) by reason of being alongside of a rectangular block of land eligible under section 6(b). These payments were regularized by a dollar vote included in Appropriation Act No. 2, 1965, assented to April 3, 1965. The vote in question is Department of Agriculture Vote 70d which declared that any block of land eligible for an award under section 6(b) was an eligible township for purposes of section 6(a) and ratified any previous awards made on this basis.

No awards are made in respect of sections of land where the average yield of wheat is 12 bushels or more per acre. However, a farmer occupying part of a section of land is entitled to receive an award even though the yield on his land exceeds 12 bushels per acre if the other occupant of this particular section has a yield low enough to bring the average yield for the section below 12 bushels per acre. Three cases were observed where farmers were paid \$310, \$135 and \$44 where their yields were 13.5, 14.8 and 21 bushels per acre respectively. In another township, which was eligible on the basis of wheat being the predominant crop, two cases were observed where awards were made to farmers who had very successful harvests of coarse grains. One farmer harvested 2,700 bushels of oats on 100 acres and the other 3,600 bushels of rye on 180 acres. Converted to a wheat-yield basis, the yield would be 13.5 and 26.6 bushels per acre. These farmers were paid awards of \$315 and \$400 respectively.

Inspections of areas where general crop failures have occurred are made to secure information from farmers to determine the actual yield of grain on each parcel of land. This is recorded on a "cultivated acreage report" which is signed by the farmer and the inspector. Two methods of verifying the information given by a farmer are measurement of his grain bins and examination of his Wheat Board permit book. Inspectors are required to measure bins and examine permit books or explain why they have not done so on the cultivated acreage reports. Our limited test revealed that Wheat Board permits were not examined in all cases and the bins were not always measured. However, measurement of the bins does not assure accuracy of the reports because wheat grown in one year may be stored with wheat produced in a previous year or in bins located outside the crop failure area. Furthermore, it is frequently impossible to examine storage bins located in remote locations when country roads are practically impassable due to inclement weather. As a result the inspector is forced to rely on information given him by the farmer.

During the year a special branch was set up, with headquarters in Regina, to make spot checks of selected areas. One of the reports of this special branch concerned a suspected area in Alberta. The investigator reported that there appeared to be no doubt the falsification of cultivated acreage reports was the rule rather than the exception and that the elevator agents were also involved. Quantities of wheat on hand, stated to have been produced in the previous year, did not agree with grades of that year. Sales of grain were made in locations other than the location shown on the permit books and there was also a strong indication that considerable wheat had been sold to a feed processing plant. There appeared to be no doubt that considerably more wheat had been produced in 1964 than had been shown on the cultivated acreage reports. Eleven townships were involved. No payments had been made in the area and the municipalities had been requested to withdraw applications for awards.

The Commission of Inquiry established by Order in Council on December 21, 1963 to inquire into payments made under the Act, in its report of June 10, 1964, observed that the present system of processing cultivated acreage reports through the employment of a large number of inspectors was both unnecessary and expensive and did not assure accuracy. The Commission noted that new permit books are issued at the end of each crop year and recommended that, as a condition precedent to a farmer having a right to secure an award, he be required to set forth in his permit book, at the time he receives it, a statement of grain on his farm. The Commission also recommended that all farmers in an area affected be required to complete cultivated acreage reports when a municipality makes an application for assistance, so that it would not be necessary for inspectors to secure these reports. In our opinion these two recommendations require implementation.

Last year we noted that the Board of Review, established under the Act to decide questions concerning eligibility for awards and other relevant matters, did not maintain any minutes and, as a result, difficulty was experienced in verifying certain awards under the Act. This condition still exists.

Since inception of the Act three townships have received crop failure assistance in 24 out of 26 crop years and 30 surrounding townships were eligible in 21 years of the same period. We again recommend that consideration be given to the elimination from eligibility for awards, of marginal land on which crop failures continuously occur from year to year, and also to the repeal of section 7 of the Act which requires every award to be paid in the month of December. It is impossible to comply with this section of the Act as most of the awards cannot be paid until January or February.

Mr. A. M. HENDERSON (*Auditor General of Canada*): As most members know, this Fund operates as a special account within the Consolidated Revenue Fund. Under the P.F.A. Act a levy of 1 per cent is imposed on the purchase price of grain bought by licensees and the moneys collected are credited to the account. Awards are then made to eligible farms in the areas affected by crop failure in Manitoba, Saskatchewan and Alberta, and the Peace River District of British Columbia.

In 1963 there was a deficit in this account of \$7,295,000, in 1964 it was \$1,073,000 and in 1965 it was \$367,000. You will remember that in December 1963 the Committee on Privileges and Elections in the House recommended the appointment of a commission to enquire into payments made under the Act in the 1962 crop year. The audit office had only been able to conduct a limited examination of the operations of this account for a number of years up to 1963. Our first report on the operations of the fund followed a test examination in the fiscal years 1963-64 and the comments made in paragraph 46 of my 1964 report and in paragraph 52 which you have before you, at page 24 of my 1965 report, arise from our work during these two years.

Mr. Chairman, if I may run over these two notes very quickly, I will just mention the highlights of ten problems which they bring out and leave it to Mr. Barry and his associates to discuss them in more detail and for you to read them and bring the questions out.

There are ten basic problems on which I would comment. The first has to do with the fact that the Review Board has to decide eligibility of the farmer,

but it keeps no minutes which would disclose its policy or the criteria of its judgment. Consequently, it is difficult for us, as auditors, to verify the awards.

Secondly, there is the desirability of placing PFAA permanent staff under the Civil Service Commission. You will probably recall that the Commission of Inquiry expressed some views on the desirability of that and I do not believe that this has been resolved yet, but no doubt Mr. Barry will have something to tell you on that.

The third point I would mention is the question of payments of awards to marginal townships. There are some cases given in the note.

The fourth point is the payment of awards to sections which are kitty corner to each other, a policy which was only in effect for one year; 1962 was the year.

The next has to do with an opinion given by the Deputy Minister of Justice that a block of land eligible for award under section 6 (b) cannot be regarded as an eligible township for purposes of making other sections of land, having a side that lies along its boundary eligible for an award under section 6 (a). Nevertheless, as I say in the note, approximately \$909,000 was paid out, notwithstanding this legal opinion.

The payments were, however, regularized by a dollar vote in Appropriation Act No. 2, 1965 which I would suggest to you demonstrates the effective use of a dollar vote to amend a statute, namely the Prairie Farm Administration Act.

Number six, is the difficulty of determining the accuracy of awards when it comes to the substitution of coarse grain for wheat. There is nothing the matter with that but coarse grain is not, in fact, measured whereas wheat is.

Number seven, I mention some instances where awards paid when yields exceeded 12 bushels an acre, which is the limit.

Number eight deals with the difficulties of verifying yields on grains grown adjacent to irrigated land.

Number nine, I might mention the fact that the administration set up a special branch, with headquarters in Regina, to make certain spot checks in selected areas. This was an excellent step and indicates how the agent in charge was able to make good use of the administrative staff, local inspectors, et cetera.

And the final point, which is referred to again at the end of my 1965 note, indicates how the P.F.A. Act cannot, in fact, be complied with so far as paying awards by the end of December is concerned. They just cannot all be paid by then and it is always January or February before payments are complete.

Perhaps Mr. Barry and his associates would care to pick it up from there, Mr. Chairman.

The CHAIRMAN: Well, now gentlemen, I would like to introduce the members of the Department of Agriculture who are with us this morning: Mr. S. C. Barry, the Deputy Minister; Mr. W. R. Bird, Director of Crop Insurance; Mr. H. S. Riddell, Director of Prairie Farm Assistance administration; Mr. J. S. Parker, Director of Administration, and, from the Board of Grain Commissioners, Mr. F. F. Hamilton, Mr. W. J. MacLeod, their secretary; and Mr. S. B. Williams, Assistant Deputy Minister of Agriculture. Dr. Barry, would you like to make some comments at this time?

Mr. S. C. BARRY (*Deputy Minister of Agriculture*): If I may briefly, Mr. Chairman, then I might call on my associates for some more comments and detail. If I may, I will take the items in the order in which Mr. Henderson mentioned them.

Mr. Henderson referred first to the fact that no minutes are kept by the Board of Review of its decisions. This, sir, is factually correct in the sense that no minutes are kept. The Board of Review has the responsibility, under the Prairie Farm Assistance Act, to pass judgment on the eligibility or otherwise of townships and to deal also with the eligibility of individuals where difficulties arise and decisions have to be made.

Its decisions are recorded on the forms which are provided for the purpose. With respect to each decision of the Board the Chairman signs the form which is presented to the Board, listing the record of a township and the board's decision is recorded in that way. There is no explanation by way of minutes of the reasons why the Board came to a decision with respect to these individual items. The decision is recorded but not the reasons for it.

I would like to ask Mr. Riddell briefly to elaborate on the procedures followed by the Board of Review in this connection but there is one point which I feel I should make. That is, that the Board of Review is a reasonably autonomous body in that it is not subject to direction from the Director of the Prairie Farm Assistance Administration, and the Board of Review makes its own decision on whether it keeps minutes. The Director is not able to give a direction in this respect. I think that on two or three occasions it has been raised with the Board but I understand the Board's opinion has been that it records its decision and the chairman's signature on the documents which are presented to it, with respect to eligibility or otherwise, and that this constitutes their decision.

From that brief background Mr. Riddell might briefly elaborate a bit more on the procedures of the Review Board.

Mr. H. S. RIDDELL (*Director, Prairie Farm Assistance Administration*): After the yields information is compiled in our office, as received from the field, this information is transcribed in what we call a "Ledger Yield Sheet" which shows the individual yields on each quarter section and each section of every township. There are 36 sections in a township. In each section the average yield is calculated on that section and it is also calculated on the township as a whole. This information then is placed before the Board of Review on the ledger yield sheet and the Board of Review then decide on the eligibility, or otherwise, of this township according to the yields that have been shown to them and computed by our staff.

Supposing the township is not eligible but there is a block of sections in the area, they decide how far the block shall extend. It is their decision and their decision only. From time to time they call me in to their meeting and ask for information and I may be asked for an opinion on various things, but they make the decisions. Then they record it on the ledger yield sheet which is dated and signed by the Chairman of the board and when we come to the blocks in the township they indicate the number of sections included in the block, the category, and all pertinent information relative thereto.

Now, when we deal with an individual case of a farmer who may be appealing a decision of the administration regarding his eligibility, we provide the Board with a summary of this farmer's particular case as compiled from his file. And the complete file, together with all correspondence, is submitted to the Board and the Board consider it and they rule on its eligibility or ineligibility, as the case may be. Their decision is final and is indicated by the Chairman's signature on each individual case.

The CHAIRMAN: Are there any questions?

Mr. BIGG: I think this Act is principally in operation in western Canada. It is not entirely an operation to know the difficulty in administering this Act. It is almost impossible to administer it to the satisfaction of individual farmers. I think an adequate system of crop insurance would be better. That is all I have to say about that.

The CHAIRMAN: Any more questions?

Mr. SOUTHAM: Mr. Chairman, as Mr. Bigg has said, anybody who is familiar with the administration of this Act understands some of the problems in connection with it, the pressures that are brought about by various climatic situations in various areas, and so on. The Board of Review itself is not subject to giving written reasons or statements concerning why they make certain decisions. I wonder could this be changed as far as the Board of Review is concerned, because if they would keep minutes of these decisions this would help to clarify and maybe alleviate some of the criticism which has been directed towards some of decisions that have been made. Has this ever been attempted or is it contrary to the general administration of the Board of Review?

Mr. BARRY: In this case, sir, I speak from second hand and know only what the officials have told me. I think the situation is that the Board of Review makes the decision on the basis of information supplied to it by the administration of P.F.A.A. I think there probably have been times when the administration might have been happy to have had a minute from the Board of Review which would have enabled them to explain the reasons for the decisions. The Board, as I said earlier felt that it had discharged its obligation when it makes its decision and records that decision by the Chairman's signature on the report.

Mr. SOUTHAM: Basically speaking, ninety-nine per cent of the decisions are I think just and fair but there have been instances where there has been a question raised and I would think that possibly there could be some little change in the constitutional or statutory approach there.

Mr. BARRY: As it stands now, the administrative officers have to interpret, to the individual concerned, the reasons for the Board's decision, which is not always a very happy situation to be in.

Mr. SOUTHAM: This is the point and I think this has been one of the controversial areas that might be overcome if we did ask the Board of Review to keep minutes and then, if they did have to refer back, they would have something to support their decision.

The CHAIRMAN: Mr. Henderson, what are your observations on this statement?

Mr. HENDERSON: We make the point here, Mr. Chairman, for the information of the House and the Committee, that we were unable to verify to any degree the eligibility of the townships and the farmers because no minutes were kept. As I said, the sort of minutes we are looking for would recite or deal with the policies of this Review Board and the criteria of its judgment in much the same way as the minutes of the Service Pension Board, which we were discussing last week with the Department of National Defence, indicate what their policy is, and from which we are able to form a better idea and to carry out a complete audit. We also might be able to advise the Board of exceptional cases which, in fact, would help it or cause it to improve its administration.

I do not see why there has to be an exception in the case of the P.F.A. Act, any more than there is for example in the case of the Canada Corporations Act or some of the other legislation. In short, Mr. Chairman, I wonder whether this is not a case where the Committee might care to recommend that some effort be made to keep minutes, if only to put down, as I say, the broad general policy or the criteria so that there would be some sort of record other than just the decision of the committee in each case.

The CHAIRMAN: We will make note of that. I have one or two questions here which I would like to ask. It says here that, during the year, Special Branch was set up with headquarters in Regina. By whom was this branch set up?

Mr. RIDDELL: By the PFA administration, sir.

The CHAIRMAN: Now, Mr. Henderson, you audit the books of this commission, where do you work from? Have you an officer in the west who audits out there?

Mr. HENDERSON: Yes, we have had an office for some years in Winnipeg, Mr. Chairman. But rather more recently, in the last three years, we have established one man who now has a junior assistant in Edmonton, and we have a man in Regina. It is as a result of these two small offices that we are able to do a more effective job on the Prairie Farm Administration Act records. The reason we had not done anything up to that time was that, as I say, we only had an office in Winnipeg and, in fact, that office consisted of only one man.

The CHAIRMAN: Do you feel that you are making a more effective audit than you were previously?

Mr. HENDERSON: I think so, Mr. Chairman, and I would hope that the points we bring out in the 1964-65 notes here will indicate that to the Committee.

The CHAIRMAN: And these recommendations made by the Commission of Inquiry, Mr. Barry, are they being followed out?

Mr. BARRY: Well, sir, I think that one cannot be completely didactic on that. In some respects yes, and in some respects not yet. For example, the second point that Mr. Henderson raised which was a specific recommendation of the Board of Inquiry that the staff of the PFAA be placed under the Civil Service Commission, has not been acted on because this requires an amendment to the statute in order to do it. And this has not yet been done. It is not within our administrative authority to do it. It has to be done by statute.

Mr. SOUTHAM: If I may speak to the bringing of the PFAA staff under the Civil Service, when I had the honour of being a member of this Committee a

couple of years ago, this came under discussion and was a recommendation then, I believe. Has this not been done because of the point Mr. Bigg brought up, namely that we had hopes of bringing in crop insurance legislation which would finally supersede PFA and it was therefore not considered necessary to take this step at the present time, before viewing what progress crop insurance policy might have in the west? Have you any comment to make on that?

Mr. BARRY: Well, I think that the eventual decision concerning whether and to what extent crop insurance will replace PFA is still for the future. This has still to be determined by experience and I would not have thought that an expectation of crop insurance subsequently replacing PFA would be a factor in the determination now of whether the staff should or should not be placed under the Civil Service Commission. Again, though, I should say that this specific recommendation, and indeed, many others involved in the recommendations of the Board and some points raised by the Auditor General, are only capable of correction by amendments to the Act itself. This is something that has not yet been done.

Mr. SOUTHAM: Personally, Mr. Chairman, I was, at that time, in favour of bringing the PFA staff under the Civil Service. I am still of that opinion. I do feel that, irrespective of the progress of our crop insurance program, there is still a need for PFA and will be for some time. In the meantime, I think your staff under PFA administering this Act would feel more contented and free to do a better job in the administration of the whole—

The CHAIRMAN: Mr. Southam, we will make a note of that. That might be a recommendation of the Committee on Public Accounts.

Mr. BALLARD: Well, Mr. Chairman, I can agree with the Auditor General that the lack of minutes does create a problem in the setting of standards from his point of view, but I think that it goes a little further than that. The lack of minutes prevents a Committee such as this, or some other Committee charged with the responsibility, of assuring itself that all appellants before the Board are treated in an equitable way. We have no way of deciding whether everyone who has made an appeal has been given the justice to which they are entitled, and I think this is quite a shortcoming.

The other thing I object to very strongly is the fact that there appears to be no appeal from the decision of this Board. I think this is just one more of many boards and commissions, set up by various levels of government, from which there is no appeal. I think this tends to abrogate the British system of justice where there is an appeal from appointed boards. So often you run up against a board which makes a decision and will not give you an answer on why they made the decision nor will they give you the opportunity to argue that the decision reached has been unjust in a particular case.

I think this type of board, which is an end of the road board, is increasing in number and that we are getting away from the concept of assuring people that they are being justly treated when they do come before these boards.

Mr. BIGG: I was wondering whether one of the officials would tell us, if they have any breakdown, where most of these complaints come from. My point is that this board is continually reviewing literally hundreds of cases. Now what is it the farmers are complaining about? I understand the very great difficulties you have of giving so-called justice under this Act, because this Act just does

not work. But, in so far as it does work, and in so far as the farmers expect to be reimbursed for crop failure out of a combined fund of their own and the public treasury, is there a breakdown at all into the kind of complaints they have? Because I think if we did that, we could amend the act more efficiently and that if we had this type of information before the House, we could recommend to Parliament.

Mr. BARRY: Mr. Chairman, I wonder if I might deal with the point Mr. Ballard raised, as well as the point Mr. Bigg has just raised? If I might refer briefly to the Act itself, it is section 4 of the Act which establishes the Board and says what its responsibilities are.

The Board basically does two things; it reviews the information with respect to yields in a township and determines the eligibility of a township for P.F.A. awards. This is a straightforward thing, and indeed I would not be of the opinion that minutes in this respect would serve any great purpose because the data is all there. It shows the yields in each section of the township which is then either eligible or not eligible and the Board so records its decision. I do not think that, in this respect, the lack of minutes is a serious matter.

The second responsibility of the Board is to decide any question concerning the eligibility of any farmer or a class of farmers. This then gets down to individual cases and I feel that, as I judge to be the opinion of the Committee in this respect a minute of the Board, stating its reasons for its decision, would certainly be helpful to the administration too.

Then, finally—and this deals with Mr. Ballard's point—the Act says: "the decision of the majority of the members of the Board constitutes a decision of the Board"—and finally, "any decision of determination of the Board is final." This is the way the statute now stands. If there were to be provision for appeal such as a court of appeal or some form of personal representation this, again, would require some amendment in the Act as it now stands.

More specifically, with respect to Mr. Bigg's question concerning the type of appeals, and so forth, I think I might refer this to Mr. Riddell, if you do not mind.

Mr. RIDDELL: Well, one of the areas where we receive a lot of complaints from farmers is from areas we have gone into and made inspections due to the fact that the municipality has applied for inspection. Then we get to the edge of that area, particularly that edge of the area where they are found to be eligible. We get a lot of complaints there, Mr. Chairman, from farmers who do not get paid, complaining that the other farmers did get paid, and they did not, and his crop was better than theirs.

We also get complaints on what we call a 12 plus section for which, when the average yield of a section of land is found to be 12 bushels of wheat or the equivalent thereto, nobody gets paid on that section. We run into problems there of farmers unloading wheat. Then again, in the area of hail storms, we get a lot of complaints on the edge of hail storms where farmers are completely hailed out and have no crop and the man on the edge of the hail storm may have a fairly good crop and he will get paid at the same rate of pay.

I think these are pretty well the areas from where we get the complaints. We do get odd complaints from farmers who think they should have got a higher award, but not so much as from those complaining because the other fellow got paid and they did not and they felt the other fellows crop was just as good.

The CHAIRMAN: Well, now I do not wish to cut off discussion.

Mr. BIGG: Mr. Chairman, another point, if I may. Now, you fellows are all here now and we are the parliamentarians and, as you all know, sometimes there is not good liaison. You may feel that we are being critical when we ask that a farmer's case be brought forward and so forth.

Are there any suggestions you people could make to improve the act so that we can give you parliamentary sanction for breaking some of these bottlenecks. For instance, it is well known that if a farmer does not touch a township he does not get paid but he has to pay the levy and it is impossible for him to ever benefit under PFA and yet he is taxed. Now this is one of the things I am sure that many farmers, particularly in my district where there are scattered farms, feel this is a great injustice.

The CHAIRMAN: Mr. Riddell, or Mr. Barry have you any observations on that?

Mr. RIDDELL: I will let Mr. Barry reply.

Mr. BARRY: Well this, of course, is a fact of life as far as PFA is concerned. Every western grain producer delivering grain has to pay the levy and there are wide areas of the prairie provinces which very seldom receive awards and this is a continuing fact. Nevertheless, the original concept of PFA was that this was the base of its establishment, that there was to be a fund built up, through this levy, which was to be used to compensate people in years of disaster or semi-disaster. This is just the system; that is all I can say about it. PFA has never been regarded as crop insurance. PFA has been regarded, historically, more as a semi-welfare operation with the funds for it provided, theoretically, by the levy against all grains, but indeed, historically they have amounted to only about half of the total amounts which have been paid in awards.

The CHAIRMAN: I would like to interject here. You mention welfare. According to the Auditor General's report, some of the welfare went to people who should not have got it. It says here:

One of the reports of this special branch concerns a suspected area in Alberta. The investigator reported that there appeared to be no doubt that falsifications of cultivated acreage reports was the rule rather than the exception, and the elevator agents were also involved.

Now, as the Public Accounts Committee, this is the section in which we are interested. We have heard of the operation of the PFA and of the ground work, but the responsibility for checking the authenticity of this is ours.

I know there is a member in our midst this morning whose area was concerned in this and if Mr. Payne wishes to make any brief statement here about this, he is at liberty to do so. He is not a member of the Committee but, as you know, anybody attending Committees is at liberty to take part in everything but voting.

Mr. FANE: Thank you, Mr. Chairman, the name is Fane.

The CHAIRMAN: Fane. I am sorry, I said "Payne"; I was thinking of the former member Bill Payne.

Mr. FANE: The area mostly in question does happen to be in the constituency which I have the honour to represent. I may say that those people who were excluded, notwithstanding the many meetings I had with the Minister, the Director Mr. Bird, and even one meeting with the Board of Review, still contend that the cut off of the award from them was not right. They say that something has happened somewhere and that the information they gave was not considered as correct. It has naturally been proven to the Board and the director who have shown me where the information they have is correct, according to the figures they have been able to work out.

I have told all those people that they have lost out on any award. And do not ever let anybody think this is an award to which the people are not entitled when they get prairie farm assistance, because they do pay in one per cent of all the returns they get from the grain sold to the Canadian Wheat Board. Our western grain must be sold through the Canadian Wheat Board.

It is not looked upon as a welfare or a relief program, I can assure you. It is looked upon as a right because they pay for it. Some of those people, did give wrong information, there is no question about that, but it certainly imposes great hardship on the people adjoining a block which was eligible. I have a great many people whose C.A.R., cultivated acreage report carried the correct information to the last bushel. They get excluded because somebody else guessed wrongly on the measurements or did not give the proper information to the inspectors. Perhaps there is a lot of misrepresentation by some of the farmers but the majority of them are honest.

But there is something more. Mr. Barry, I think, remarked about the blocks which are eligible. They are 12 sections in a rectangular block and, at the moment, they are not allowed to be kitty-cornered to another section. I think that is a mistake because, no matter how it is organized, drought, hail or grasshoppers, or what have you, do not conform to rectangular blocks. Perhaps is not the place to say that, but it has to be said everywhere and all these calamities do not come in rectangular or square blocks. Believe me that makes a difference to the people who are just across the township line in a 6(b) area or if they happen to be kitty corner. If anybody is making representations about prairie farm assistance, things like that should be taken into consideration. And if, when crop insurance becomes an accomplished fact, and if there is still a place for PFA, then the block should be made smaller.

Of course, I should have said that in the agricultural meeting but I was not there; I was not invited. I feel that the director and the Board of Review did everything possible, within the act, to see that justice was done.

The CHAIRMAN: Thank you. Any further discussion on this? We will move on.

Mr. BALLARD: Mr. Fane got into the question of rectangular calamities occurring on the prairie. I was going to ask Mr. Barry if, in his opinion, it was the intention of the act as it was originally conceived, to pay bonuses to farms where the yield was greater than 12 bushels to the acre. I notice that in some places here, for example, that farms which had a yield of 26 bushels to the acre were still eligible, under the act, for bonuses. I suspect the act spells out that they are eligible but Mr. Barry, do you think it was the intention of the act as originally passed that this should occur?

Mr. BARRY: The way this works, sir, and this, again, is specifically provided for in the act, that for a township which is the starting point to be eligible for P.F.A. awards the average yield of wheat in that township must be under 8 bushels per acre. If the yield in the township is under 8 bushels per acre, then any section in that township which has yields of under 12 bushels is also eligible. Even though a township is eligible, if there is a section in that township where the yield on that section has been over 12 bushels, that section is not eligible.

Where the point has arisen to which you refer and to which Mr. Henderson also referred in his report and in his summary, is that there are circumstances in which you will have two or maybe three farmers on a section. One of the farmers on that section may have a yield of over 12 bushels but if the average yield on that section is under 12 then all farmers on that section are eligible whether or not their individual yields were over 12 bushels. This is specifically provided for in the statute. This is our bench mark. This is what we must do.

Mr. BALLARD: Well, that leads to another question, Mr. Chairman, instead of working on averages and on large blocks of land, Mr. Barry, would it not be possible to handle this type of thing, on an individual farm basis?

Mr. BARRY: There is the basic difference in concept between P.F.A. and crop insurance. Crop insurance works on an individual farm basis. P.F.A., in its inception and since, has always been regarded as a vehicle to provide assistance to broad areas of land which have suffered crop failures. This has always been the concept of P.F.A. This is why it starts with the township.

Mr. BALLARD: Would we be destroying the concept of P.F.A. if we did handle it on an individual farm basis rather than an area basis?

Mr. BARRY: In my judgment yes. This is the area of crop insurance.

The CHAIRMAN: Any further questions? Just two questions in closing, Mr. Barry, who is responsible for signing the cultivated acreage reports?

Mr. BARRY: Mr. Riddell will answer.

Mr. RIDDELL: The farmer signs the cultivated acreage report. He also certifies as to its correctness and then our inspector also signs it and certifies that, in his belief, it is reasonably correct.

The CHAIRMAN: Does the Chairman?

Mr. RIDDELL: No, the Chairman does not sign each individual cultivated acreage report, only when it is referred to the Board of Review as an individual appeal and then they put the decision on it. Then, and only then, does the chairman of the Board sign it.

The CHAIRMAN: When it goes to the board of appeal, only the chairman signs it?

Mr. RIDDELL: The Board of Review do not see each individual claim when they are dealing with the township. They just see the ledger yield sheet, which is the summary of the township. That is all the board sees.

The CHAIRMAN: And only the chairman signs it?

Mr. RIDDELL: He signs the summary.

The CHAIRMAN: Well this would appear to be a bit of a loophole, I would think. Is there an assistant or a vice-chairman, so that two people could sign that?

Mr. RIDDELL: You mean, Mr. Chairman, that the chairman should sign each individual cultivated acreage sheet?

The CHAIRMAN: No. No. The one that he does sign should be co-signed by two people rather than just by the chairman.

Mr. BARRY: The point which the chairman raises is one of some validity. The signature of the Chairman indicates that this is the decision of the Board and yet we have no minute of the Board to record that this is the decision.

The CHAIRMAN: This is the point.

Mr. BARRY: We go on the assumption that the Chairman only signs when the Board decides, and I think this, in actual fact, is so. I imagine that each case is dealt with by the Board and the chairman then signs it. It is not recorded as a decision of the Board, as such. The Chairman's signature is taken to mean that this is the decision of the Board.

The CHAIRMAN: We may recommend in this regard. We will discuss it further. Just one question and then we will move on to the next one. Are these inspectors paid by the day or by the number of calls they make?

Mr. RIDDELL: They are paid on a per diem basis.

The CHAIRMAN: Did you ever give any thought to paying them on the basis of the calls they make?

Mr. RIDDELL: It would be a difficult thing to do and I do not think we would get nearly the same type of work as we do from them because some inspectors would be inclined to take a considerable number of reports in a day, in a short space of time, and I think the per diem basis is the better method.

The CHAIRMAN: Page 26, item 53. We would like to finish this by noon, if possible; still I do not want to curtail discussion, so make your questions as pointed and as concise as you can.

53. *Loss arising from delay in acceptance of offer to purchase land.* Early in 1962 the Prairie Farm Rehabilitation Administration opened negotiations for the purchase of certain properties required in connection with the construction of a water reservoir in Saskatchewan. One of the owners concerned offered to accept the sum of \$10,750, in full and final settlement for his property, on the condition that payment be made on or before October 31, 1962.

The offer was forwarded to P.F.R.A. headquarters in Regina on May 29, 1962 and was sent to Ottawa on July 31, 1962. Order in Council P.C. 1962-2/1336 of September 27, 1962 authorized acquisition of the property involved but it was not until late in October that a solicitor in the Province of Saskatchewan was appointed to handle the conveyance. On November 3, 1962 solicitors for the landowner advised that, because the condition set out in the Offer to Sell as to time of payment had not been complied with, the offer had been withdrawn.

Since the land in question was essential to the water storage project, the Department of Agriculture undertook expropriation proceedings in 1964. Settlement was then made with the landowner for \$16,000, an increase of \$5,250 over the amount agreed upon prior to withdrawal of the original offer.

Mr. HENDERSON: Paragraph 53 has to do with the loss arising from the delay in acceptance of offer to purchase land. It will be seen from this note that due to a delay in the processing of an order in council authorizing acquisition of the property involved, the solicitors for the landowner who was willing to sell, withdrew his offer. The only course left open to the Department of Agriculture was to undertake expropriation proceedings with the result that the landowner received \$16,000 for the land in question instead of the price of \$10,750 which he had agreed to accept providing payment was made by the date he had stipulated, namely October 31st.

The CHAIRMAN: Mr. Barry, whom do you wish to answer? I think the question the Committee would like to know is why it took five months to close the deal.

Mr. BARRY: Well, there was a delay in actually securing concurrence of the offer and I suppose several interests were involved in this delay. But I think that there is one point I would like to make in connection with this particular item.

This had to do with the project of the Avonlea dam in southern Regina in Saskatchewan. The offer of the party in question was not an offer of outright sale, it was an offer for an easement for the flooding of the dam. The owner attached one condition to the easement and I am sure that all members of the committee realize the difference between easement and outright purchase. The easement gives us the right to flood the land up to the level of the easement which is secured and, when the water is not flooded to that level, the owner would have the right to use the land for grazing or for whatever purpose he wished.

The owner attached one condition for this easement and that was that we would guarantee him a supply of water in perpetuity for his whole farm. This was a questionable request and this particular request indeed did lead to some delay in dealing with the matter. In any event, in the outcome the offer of easement was not taken up before the expiry date and subsequently we purchased the land under expropriation, with the difference in the financial cost, as the Auditor General has noted. But I do wish to stress that the offer of the owner was for an easement, which did not give us ownership and that the final action was actual possession of the land and ownership.

The CHAIRMAN: We are running into differences of opinion here. The Auditor General says one thing in this paragraph and Mr. Barry says another, the Committee are in between.

Mr. HENDERSON: Mr. Chairman, the point is that the note here was shown to the Department and, as I understand it, confirmed by them to us that it was an offer to sell, that he agreed to accept a sum, as we stated, of \$10,750 in final settlement on condition payment was made by October 31, 1962. Do I understand Mr. Barry to say that is not true?

Mr. BARRY: His offer was for an easement for a right of way and, sir, I would like to say at this point that we could pass this over and just call to Mr. Henderson's attention the word "fault". We should have done this, because the difference in the two transactions was quite clear.

The CHAIRMAN: I think what the Committee is concerned about here is that we do not want to waste time on paragraphs in the Auditor General's Report

unless they are A-1 and authentic. The Committee will rule on whether or not they want to make this a recommendation. As I understand it, the Auditor General, before he prints his report, submits to the department concerned what he is going to put in his report. Therefore, I would think the Department of Agriculture would have read this over and said, "Well, now wait a minute, this just does not seem to be correct in view of the fact that you have not stated in there that there are certain circumstances connected with this, such as the easement and the right of water to be supplied over a period of years", all of which throws a little different light on the matter.

Mr. LEFEBVRE: Does it really make any difference whether it was for an easement or to purchase? We still lost \$5,000 on the deal. Why should it take longer to have an easement than to purchase? I cannot see what the difficulty is on that.

Mr. HENDERSON: Mr. Chairman, if I might just answer Mr. Lefebvre, I presume Mr. Barry's point was that investigating an easement is likely to take longer than considering an offer to purchase. I can only say in regard to the correctness of the facts that I have here in my hand a copy of my letter to Mr. Barry of November 15th, 1965 enclosing a copy of this audit observation, together with six others, asking if he could advise me of any comments he could make on these paragraphs before they went forward to the printers. And on November 22nd a reply was received from Mr. S. J. Chagnon, Acting Deputy Minister of the Department, commenting on the seven in question.

Mr. Chagnon had no comment in regard to loss in delay of acceptance of offer to purchase land, his concluding paragraph in his letter simply reading: "I have no comments in respect of the remaining subjects covered in your letter", which led me to believe that the facts contained in this audit note were as stated.

The CHAIRMAN: Then the Committee can only handle this as it appears in the Auditor General's report as presented to us here this morning. Unless the department has any other comments on it we must deal with it as it is here because you were given the opportunity to correct it, if it was incorrect, and you did not correct it.

Mr. BARRY: I would like, if I may, to record my apologies to the Committee and to the Auditor General for the fact that we did not pick it up when it was referred to us.

The CHAIRMAN: I sincerely hope this will be the case with all departments. We have been running into this a few times, not too often.

Mr. HENDERSON: Very seldom, I think.

The CHAIRMAN: Very seldom.

Mr. HENDERSON: If I may say so, very seldom actually.

Mr. SOUTHAM: Well, Mr. Chairman, this might help to clarify this problem. I come from an area of Saskatchewan where PFRA has been applied to the developing of dams, and I am quite familiar with what has actually happened here.

When a application comes in to our PFRA engineers in Regina to look over a certain area and they agree to developing a dam, naturally, there is a certain

amount of interest on behalf of the individual who is going to be affected by this inundation and so on. But as I understand, from the application of the Act, it is the responsibility of the municipality within the area of the proposed dam to approach the individuals who will be directly affected and obtain their agreement regarding the cost of the easement. Is that not right, Mr. Barry?

Mr. BARRY: Not in every case, sir. There are occasions when PFRA will build a water project where the right of way is supplied by the municipality. There are other cases where PFRA supplies the right of way and takes responsibility for the negotiation for the purchase. In this case, the responsibility for negotiation for purchase or for easement of land to be flooded, was done by PFRA alone.

Mr. SOUTHAM: The experiences I had were that it was usually the municipality.

Mr. BARRY: In some cases the municipality prepares the right of way for small projects.

Mr. SOUTHAM: The point there is that where it takes the responsibility off PFRA, local elected municipal officials themselves have a deep responsibility in seeing that justice is done and they, through their good offices, persuade these people directly affected, to be reasonable about these prices and, when they make an agreement, to stick to it.

I think in one or two cases in my area an agreement was made with PFRA. There was no increased cost to PFRA for getting these easements but there may have been some adjustments between the municipal officials and the farmer himself.

Mr. BARRY: This applies in several small water projects where the municipality does supply the right of way.

The CHAIRMAN: I think we will move on. Mr. Barry, is there any specific reason why this was held up for five months and cost the taxpayers of Canada \$5,250? Is there any reason that you could give for this?

Mr. BARRY: It was a combination of circumstances.

The CHAIRMAN: Right. The next one is paragraph 54.

54. *Loss on advances for construction of potato warehouses.* Order in Council P.C. 2017 of April 20, 1950 authorizes the Minister of Agriculture to grant financial assistance to co-operative associations for the construction of potato warehouses. The regulations governing the grants require co-operative associations applying for assistance to assume not less than one-quarter of the cost of construction, the province to pay the remainder. Following construction of a warehouse, the federal Government reimburses one-half of the amount paid by a province. One-half of the subsidy received by a co-operative association is required to be repaid by a volume levy on all potatoes and other produce handled by the warehouse.

It has not been the practice to protect the recoverable portion of a subsidy by means of a mortgage on the warehouse and two cases were noted where amounts required to be repaid by co-operative associations will not be recovered.

In 1960 the Province of Saskatchewan paid \$75,728 to a co-operative association for construction of a potato warehouse and in 1962 the federal government paid \$37,864 to the Province as its share of the subsidy.

The manager of this co-operative association was also the manager of a nearby family-owned potato chipping plant. A member of the family was on the board of directors of the co-operative association and it soon became apparent that the warehouse was being run solely for the needs of the chipping plant. In 1960, 1.5 million pounds of potatoes in storage were not offered for sale even though wholesalers in the three northern cities of the Province were buying potatoes in Alberta and Manitoba. It was the opinion of the trade that all the potatoes could have been sold on the commercial market. Some of the potatoes were stored in a special insulated bin and, in order to condition them for chipping, the temperature in this bin was raised. However, the heat loss from this bin penetrated the other bins of the warehouse. Advice from many sources on the necessity of marketing the potatoes was ignored and \$50,000 worth of potatoes were allowed to rot in the warehouse.

The chipping plant did not prosper and went into liquidation owing the co-operative association some \$12,000. To finance its operations the co-operative association then borrowed \$40,000 from a loan company and gave as security a first mortgage on the potato warehouse.

The losses incurred on the 1960 potato crop deterred growers and by 1962 it was evident that the warehouse could not operate economically. In 1964 the mortgage was allowed to sell the warehouse. No amount was received on account of the levy on the volume of the produce handled while the warehouse was in operation and it now appears that neither the provincial nor federal governments will recover any part of the \$18,932 due to each.

In the second case, a co-operative association received \$26,930 from the Province of British Columbia to assist in the construction of a potato warehouse and in 1960 the federal Government reimbursed the Province one-half of the subsidy which it had paid. After a year's operation the co-operative association was dissolved while still owing \$2,890 to the contractor who had built the warehouse and a further sum of \$3,178 to a member who had advanced this sum to the co-operative association. Both amounts were secured by mortgages and when foreclosure proceedings were commenced the Province of British Columbia paid off the mortgages and rented the warehouse. The provincial Government is presently negotiating the sale of the warehouse for \$10,000 and, after deducting the \$6,068 paid on the mortgages, will divide the remainder equally between the two governments. The federal Government will then have received only \$3,497 and therefore will lose \$3,236 of the recoverable portion of the subsidy.

In our opinion, consideration should be given to taking security, in the form of a first mortgage on each warehouse or in some other form, for that portion of the subsidy recoverable by the provincial and federal governments.

Mr. HENDERSON: This note explains how it has not been the practice to protect the recoverable portion of a subsidy by means of a mortgage on the warehouse and, in the course of our work, two cases were noted where amounts required to be paid by co-operative associations are not going to be recovered.

The circumstances of the two cases are set out on page 27. You will notice that, at the close, we recommend consideration be given to taking security in the form of a first mortgage, perhaps, on each warehouse or in some other form for that portion of the subsidy recoverable by the provincial and federal

governments. I would hope the Committee might endorse our recommendation in this respect, subject to Mr Barry's comments.

The CHAIRMAN: Perhaps, Mr. Barry, you could answer the last paragraph in the Auditor General's report on page 27 which begins: "In our opinion consideration should be given to taking security in the form of a first mortgage..." Could you enlarge on that and tell the Committee whether or not it has been implemented.

Mr. BARRY: Mr. Chairman, we are in complete agreement with the suggestion of the Auditor General that we should have some better form of security on these grants which, in effect, are loans for half the amount of the grant.

This, indeed, we are trying to develop. A first mortgage does present some problems. The basic premise of this operation is that a co-operative organization, building a potato warehouse, puts up 25 per cent of the cost and the other 75 per cent is given to it in a grant equally by the province and the federal government. Often the co-operative, in securing its 25 per cent of the cost, will have to take a first mortgage for that amount, which somewhat complicates a first mortgage on behalf of the two governments.

I would like to assure the Committee that we are trying to develop now a means under which we can have greater security of our equity than we have at the moment. Indeed, this is not a current issue because these grants have been discontinued since 1964, and I think they may be renewed.

The CHAIRMAN: Page 118.

171. *Agricultural Commodities Stabilization Account.* The operations of the Agricultural Stabilization Board during the year 1964-65 resulted in a loss of \$61,500,000. This loss, together with a balance of loss of \$2,555,000 brought forward from the previous year, was met to the extent of \$57,118,000 by funds provided by Department of Agriculture Vote 80d, Appropriation Act No. 2, 1965, and to the extent of \$5,619,000 by major services provided without charge by government departments (see paragraph 213). The balance of the loss amounting to \$1,318,000 remains as a charge to the Agricultural Commodities Stabilization Account and is included in the balance of \$23,152,000 at March 31, 1965. This amount appears as a current asset item (see paragraph 145) although to the extent of \$1,318,000 it represents a loss which must eventually be written off to expenditure (see also paragraph 140).

Mr. HENDERSON: This covers paragraph 171 of my 1965 report and it updates this particular situation. You will notice that the operations of the Stabilization Board during 1964-65 resulted in the lost of \$61½ million compared with a loss of \$134,287,000 the previous year.

We shall be discussing this very shortly under another paragraph heading but, right here, it is explained in this note how the loss for that year was met and how the balance of the loss not absorbed was carried again, at the close of the fiscal year, as a current asset item on the statement of assets and liabilities, although I would point out to the members that it represented a loss which must eventually be written off to expenditure.

Perhaps I can remind you of our discussion last week with the Department of Finance when we were questioning what is an asset. I do not know whether

there is much point in taking time to discuss this, Mr. Chairman, unless members have any questions.

The CHAIRMAN: No questions?

Mr. LEBLANC (*Laurier*): Could you tell us whether the balance sheet is consistent with what the Department of Finance told us last week? In all our accounts we have current assets which are expenditures in both the departments.

Mr. HENDERSON: They are of a deferred nature which they are going to write off or which they do not want to lose track of, so they categorize them as assets. I think that is the point you are making. Would Mr. Long care to add anything to this?

Mr. LONG: I was going to say, Mr. Leblanc, there are not that many of them. There are a few accounts in that category but, generally speaking, there are not that many which are being called assets. Any which we notice, we certainly draw attention to.

Mr. BIGG: I am not an accountant but it seems to me that this is a problem of finance, and so long as the Auditor General is satisfied that the public purse is not suffering by this, it does not really matter whether they are shown as an asset or liability, so far as this committee is concerned.

Mr. HENDERSON: Unless you are interested in the correctness of the budget deficit at the end of the year, Mr. Bigg, it does not matter at all. You either write it off or you treat it as an asset.

Mr. BIGG: Well, I think we are definitely interested in the accuracy also. On the other hand, if it is something which cannot be altered by merely transferring from one account to the other. I think our job is to plug any leaks from the public purse, rather than to ride herd on you and your accountants.

Mr. HENDERSON: Would you not agree that you are also interested in seeing that you are being given effective and fair disclosure; that the taxpayers of the country are being given the facts in terms of effective disclosure in the accounts and that items which are questionable assets should perhaps be brought to attention? Would you not concede that?

Mr. BIGG: Yes.

Mr. HENDERSON: Then, if I may suggest, I think that answers the point. It is not easy to look ahead and be right all the time and the department, quite naturally, is going to have to carry some of these items on the short term and also, as we saw last week, on the long term.

Mr. BALLARD: This is the sort of presentation which put the Atlantic Acceptance Corporation into so much difficulty, namely, showing losses as assets when, in fact, they were not. In the basic concept, from an accountant's point of view, as soon as a loss is recognized it must be reported as such, and this is the whole point.

What the Auditor General is saying is that these are really losses and this is the way they should be presented on the Public Accounts. They should not be shown as assets unless you expect to realize something from them and actually realize something from them outside of government sources or government subsidies.

The CHAIRMAN: That is a point well put.

Mr. BIGG: The point is well taken. If we are doing something which is not acceptable to chartered accountants, let us do it the way it should be done.

Mr. HENDERSON: That is all I am speaking to. I am your auditor, Mr. Bigg, and nothing else.

The CHAIRMAN: All right. A good note for recommendation. Page 172, paragraph 212.

212. *Agricultural Products Board.* This Board operates under the authority of the Agricultural Products Board Act, R.S., c.4, and consists of a chairman and two members appointed by the Governor in Council. The Act empowers the Board, under the direction of the Minister of Agriculture and subject to approval of the Governor in Council, to buy, sell, or import, and to store transport or process agricultural products. The Agricultural Products Board Account was established in the Consolidated Revenue Fund in accordance with section 5 of the Act and all financial transactions of the Board are recorded in this Account. The Board's activities are administered by personnel of the Department of Agriculture and the members of the Board also serve on the Agricultural Stabilization Board.

In response to the recommendation of the Public Accounts Committee in its Fifth Report 1961, overall financial statements, including the estimated cost of major services provided without charge by government departments, were prepared by the Agricultural Products Board. These have been examined and certified by us and are to be found in the Public Accounts (Volume II, pages 1.36 to 1.38).

The proprietary equity of the Government of Canada at the year-end was represented by inventories, at cost, consisting of: 3,735,000 pounds of dry skim milk valued at \$473,000; and 229,000 dozen whole eggs and 177,000 pounds of dried eggs valued at \$274,000.

A summary of the results of operations for the years ended March 31, 1965 and 1964 follows:

	Year ended March 31	
	1965	1964
Sales—Dry skim milk	\$ 2,505,000	\$ 2,088,000
Cost of sales—		
Inventory, April 1	453,000	1,195,000
Purchases	3,026,000	2,240,000
Storage	36,000	78,000
Processing costs	35,000	—
	3,550,000	3,513,000
Less: Inventory, March 31	747,000	453,000
	2,803,000	3,060,000

Net loss on sales	298,000	972,000
Freight, cartage, handling	2,000	32,000
Estimated cost of major services provided without charge by government departments:		
Interest on working capital	39,000	82,000
Administration	5,000	5,000
Accounting and cheque issue	2,000	2,000
	<hr/> 46,000	<hr/> 89,000
Total loss	<hr/> \$ 346,000	<hr/> \$ 1,093,000

The loss for the year was met to the extent of \$300,000 by funds provided by Department of Agriculture Vote 85d, and to the extent of \$46,000 by major services provided without charge by government departments.

Only two agricultural products, first grade dry skim milk and grade A eggs, were purchased during the year. The Board purchased 25,340,000 pounds of dry skim milk, at eleven cents per pound, from exporters and resold the product, at a lower price, to the same exporters without taking possession. Payment of the differential of four cents per pound on 1,408,000 pounds and one cent per pound on 23,932,000 pounds, aggregating \$296,000, was made to the relative exporters on presentation of export documents. The Board's stock of dry skim milk declined by 119,000 pounds which was sold to the Department of External Affairs for donations to other countries. The eggs were acquired as part of the World Food Program and none were sold.

Mr. HENDERSON: You will see here that the Agricultural Product Board operates under the authority of its own act and consists of a chairman and two members appointed by the governor in council. The Board buys, sells, imports, stores, transports and processes agricultural products. The account was established in the Consolidated Revenue Fund and all of its financial transactions are recorded in this account.

Members of the Committee will be pleased to note how, in response to a recommendation by this Committee in its Fifth Report, 1961, overall financial statements are now being prepared and these include all of the estimated costs of major services provided without charge by government departments in the manner recommended by the Committee. These are examined and certified by us in the usual way. I do not know whether Mr. Barry and his associates wish to add anything to this explanation, Mr. Chairman.

Mr. BARRY: We have no particular comment, sir.

The CHAIRMAN: Any questions? If not, I have one here. My question is in the last paragraph where it states:

The Board purchased 25,340,000 pounds of dry skim milk at eleven cents per pound from exporters and resold the product at a lower price to the same exporters without even taking possession.

No doubt there is a reason for that transaction. I think the Committee would be interested in the reason.

Mr. BARRY: May I refer to Mr. Williams.

Mr. S. B. WILLIAMS (*Assistant Deputy Minister, Production and Marketing*): Under our various support programs, one of the methods whereby prices are supported in Canada is by export assistance. That is to say, the board, either the Agricultural Product Board or the Agricultural Stabilization Board, depending under which act the program is brought into force, is authorized to sell the product at a lower price than it paid for it, to sell it into export only.

The reason why the Board handles it this way is a matter of economy and of maintaining competition on export markets. Were we to take possession of the product we would have to insist that it be packed and then stored in standard containers of some sort. By our following what we call our plan "A" and our plan "B" in respect to this, under our plan A we do take possession of a product and re-sell it. But if an exporter has a market for which he wishes to use and continue to develop his own brand or his own particular packaging, we will buy it from him and re-sell it to him immediately, and this is the device, in fact, that is used in order to pay the export assistance. Cheese, going to the United Kingdom, for example, has been assisted by the Agricultural Stabilization Board for a good many years.

The amount of assistance depends upon market conditions and on the authority under which the board is operating at that time. The device used is for the board to purchase from the manufacturer and sell back to him immediately, at the purchase price less the amount of export assistance.

The CHAIRMAN: Could you have stored that product and made the four cents profit yourself?

Mr. WILLIAMS: It was not a four cents profit, it was a four cents loss.

The CHAIRMAN: Loss, yes that is right; I was looking at it backwards. What if it was the other way round, do you do that?

Mr. WILLIAMS: Yes, we have made profit. I must say the times we operate at a profit are, however, much less frequent than the times we operate at a loss, sir. But we have made profit on powder which we have purchased and then stored for some time and the market has risen. However, as I say, that is the exception rather than the rule.

Mr. BALDWIN: I suppose this is, in effect, a four cent subsidy disguised under the form of a purchase and a sale. Am I correct?

Mr. WILLIAMS: That is the legal device which, is used, yes sir.

Mr. BALDWIN: Maybe I should not be saying this but has this anything to do with our obligations under GATT? Is this one of the difficulties we face? Have we limitations on our right to subsidize for export?

Mr. WILLIAMS: In applying this subsidization for export, we endeavour to make sure that we are not conflicting with commercial markets in a way that would get us in trouble with our GATT associates. But, as Mr. Baldwin has said, Mr. Chairman, this is just the device used to provide an export subsidy; purchase and resale is the amount of the subsidy.

The CHAIRMAN: Paragraph 213.

213. *Agricultural Stabilization Board.* The Agricultural Stabilization Board was established by the Agricultural Stabilization Act, 1957-58, c. 22, and has the

responsibility for stabilizing prices of agricultural commodities at levels bearing a fair relationship to their cost of production. Stabilizing measures take the form of either the purchase of commodities at prescribed prices, or payment to producers of amounts by which prescribed prices exceed those determined by the Board to be the average prices at which commodities are currently being sold, or payments to processors for the benefit of producers. Pursuant to the Act, the Agricultural Commodities Stabilization Account was established in the Consolidated Revenue Fund and finances the activities of the Board, except for administrative expenses which are met through annual parliamentary appropriations.

The proprietary equity of the Government of Canada at the year-end of \$21,834,000 was represented by inventories, at estimated market value, consisting of 44,555,000 pounds of butter, \$21,961,000, and 3,650,000 pounds of pork, \$1,102,000, offset in part by advances from customers and accounts payable aggregating \$1,229,000.

For a number of years the Board experienced a mounting surplus in stocks of butter since very little opportunity was found for substantial export sales. However, during 1964 generally poor production conditions prevailed in Europe. It was thus possible to dispose of the residual stocks accumulated from 1958 to 1962 to the extent that the inventory of butter decreased by 102.2 million pounds from the 146.7 million pounds held on March 31, 1964.

The results of the Board's activities for the year ended March 31, 1965 are summarized as follows:

Trading operations—			
Cost of products sold	\$92,799,000		
Revenue from sales	80,622,000		
	<hr/>		
Net loss on sales	12,177,000		
Cost of products destroyed by fire	87,000		
	<hr/>		
Net loss on trading operations	\$12,264,000		
	—by commodities—		
	Sales	Cost of Sales	Net loss
Butter	\$71,633,000	\$83,111,000	\$11,478,000
Pork	193,000	273,000	80,000
Cheese	8,796,000	9,502,000	706,000
	<hr/>	<hr/>	<hr/>
	\$80,622,000	\$92,886,000	\$12,264,000
	<hr/>	<hr/>	<hr/>
Deficiency payments—			
Eggs	986,000		
Wool	553,000		
Sour cherries	300,000		
Other	1,000		
	<hr/>		
	1,840,000		

Payments for stabilization of prices—

Butterfat content of milk and cream	35,497,000	
Milk used for cheddar cheese	4,339,000	
Dried casein and caseinates	1,941,000	
		<hr/>
		41,777,000

Estimated cost of major services provided without charge by government departments—

Interest on working capital	4,815,000	
Administration	564,000	
Accounting	182,000	
Accommodation	33,000	
Contribution to Public Service Superannuation Account	16,000	
Carrying of franked mail	7,000	
Employee surgical-medical insurance premiums	1,000	
Employee compensation payments	1,000	
		<hr/>
		5,619,000

Net loss for the year		<hr/> <hr/>	\$61,500,000
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The loss for the year together with the balance of loss of \$2,555,000 brought forward from the previous year was met to the extent of \$57,118,000 by funds provided by Department of Agriculture Vote 80d, and to the extent of \$5,619,000 by major services provided without charge by government departments. The balance of the loss, \$1,318,000, was deducted from the proprietary equity of the Government of Canada on the balance sheet of the Board.

During the year, two fires occurred in warehouses containing Board products and losses of butter valued at \$23,000, and pork valued at \$64,000, were charged to trading operations.

Toward the close of the year, the Board received reports of thefts involving 64,000 pounds of butter valued at \$33,000 stored in warehouses located in the Province of Quebec. The Board obtained a legal opinion to the effect that under circumstances of forcible entry, the warehouse proprietors would not be liable. This loss will be written off as a charge to operations in the ensuing year.

Mr. HENDERSON: The Agricultural Stabilization Board has the responsibility for stabilizing prices of agricultural commodities at levels bearing a fair relationship to their cost of production. These measures take the form of either the purchase of commodities at prescribed prices or payment to producers of amounts by which prescribed prices exceed those determined by the Board to be the average prices at which the commodities are currently being sold or payment to processors for the benefit of producers.

Like the Agricultural Products Board account, the Stabilization account was established in the Consolidated Revenue Fund and it finances the activities of the board except for administrative expenses, which are met through annual parliamentary appropriations.

Again, you will be interested to note that this board maintains its accounts and prepares its statements in the manner recommended by this Committee in

1961. My office examines the statements and we certify them for inclusion in the Public Accounts in the normal way.

The losses from fire, referred to, are included in the statement of losses, self-insured, included in the Public Accounts for 1964-65 for the first time in that year, at the suggestion of this Committee. You may also care to question Mr. Barry regarding the comments made at the bottom of page 174 about the loss of butter stores.

Mr. WILLIAMS: The situation here is that the board stores butter at various approved warehouses around the country. We do not enter into a firm contract with the storage but we specify certain terms and conditions of our own and we accept the terms and conditions the warehouse puts out as standard for the province. These are generally governed by provincial legislation.

We have been storing butter across Canada since 1948 under a previous board and under the current Agricultural Stabilization Board. During the year in question there was, I believe, a total of three thefts at different locations. The board instituted action to recover the loss due to theft.

The CHAIRMAN: May we interject as we go along, Mr. Williams? Would you say where these three thefts occurred?

Mr. WILLIAMS: There were a total of four thefts covered by this particular item. One was from a cartage firm, the firm of John Little Cartage of Montreal, where a truck was hijacked and the contents were stolen. The value of that, has been recovered because it was covered by insurance. The other thefts were from Vermette et fils of St. Agapit, Quebec; O. Couture and fils Limitée, La Durantaye, Quebec, and Weedon Creamery, Weedon, Quebec.

The Board entered a claim against these warehouses for the losses occasioned by these thefts. We received communications from the legal representatives of the firms in question that they were not responsible for loss due to theft, if there was forceable entry. We sought a legal opinion from our departmental solicitor which confirmed that this was correct. The Board then entered a minute and wrote off the loss.

However, in order to protect themselves in future, we have required, for the current year, that all storage houses sign an agreement with the Board agreeing that they will protect and indemnify the Board against losses of Board stocks incurred by theft regardless of the manner of the theft.

Apparently the question turns on whether or not there is proven forceable entry. We had police investigations undertaken of all these and, in all cases, they reported forceable entry. The legal opinion we received was that we could not claim against these people.

The CHAIRMAN: In other words, you have locked the door after the horse was stolen.

Mr. WILLIAMS: That is correct.

An hon. MEMBER: The butter.

The CHAIRMAN: The butter.

Mr. BIGG: Are these losses only revealed on stock taking, even after forceable entry? What were the circumstances under which they found the butter missing?

Mr. WILLIAMS: In all cases there was evidence of break-in and entry; the police reported immediately and it was reported to us immediately as a direct theft.

Mr. BIGG: Which is the reason why this turns up as a stock shortage at the end of the year. That puts a little different light on the case at the bottom of page 174.

The CHAIRMAN: Could you give the Committee the number of pounds of butter that were stolen from each of those three places?

Mr. WILLIAMS: In the first case, that is the cartage company, it was 11,088 pounds. The first storage was 18,704 pounds, the second, 18,144 pounds, the third case, 16,520 pounds.

The CHAIRMAN: Mr. Flemming, you had a question.

Mr. FLEMMING: My question to Mr. Williams was that since the first loss was covered by insurance, did the Board consider that they might insure against theft all butter put into storage?

Mr. WILLIAMS: This was covered by insurance, Mr. Flemming, because it was in transit in a public carrier and the legislation in that province is such that they had to carry insurance.

The Board has considered the question of insuring stocks in storage and has taken the position that, in accordance with normal government policy, we did not insure holdings. We can obtain insured storage but, in assessing the cost of this, it was considered that it would not be a worthwhile measure.

Mr. BALDWIN: I suppose, Mr. Williams, the fact is that under the provincial factors act or whatever legislation it is, that if there is theft which indicates forceable entry, then there is no liability on the warehouseman.

Mr. WILLIAMS: That is correct. But the statement we have from our legal adviser reads:

The warehouseman, in the care of the goods stored with him, would be bound to exercise ordinary care and prudence or the care that a prudent man under like circumstances would exercise for the preservation and protection of his own goods. He has not the insurer of his customer's goods. The warehouseman must prove that in storing the goods he exercises reasonable and proper care and diligence, both as to the place in which they are stored and the manner in which they are cared for. That is to say, it is incumbent upon the warehouseman, under such circumstances, to affirmatively prove exercise of prudent care and diligence. Having done this to the satisfaction of the court, he would escape liability.

In this case, if it were shown that the goods were stolen by forceable entry, it would seem to me that the warehouseman would escape liability.

Mr. BALDWIN: In the other case, the theft took place while the goods were in transit and, consequently, the carrier would be responsible under the terms of provincial legislation and you recovered, in that case.

Mr. WILLIAMS: That is correct.

Mr. BALDWIN: Now, what you have, as I understand it, and I think it is an important point, is an undertaking in the form of legal guarantee of responsibility over and above the responsibility which falls under the provincial statutes. So that if in the future, there is theft involving forceable entry, your warehouseman will then reimburse the Board for the amount of the loss. Is that correct?

Mr. WILLIAMS: Yes, sir.

Mr. McLEAN (*Charlotte*): Mr. Chairman, I would like to ask if you now have to pay extra for the privilege of having the goods insured by the warehouse?

Mr. WILLIAMS: Yes.

Mr. BARRY: Every warehouse will insure for the customer, at a higher storage rate and as, Mr. Williams said, the calculation of the board was that the cost of the additional storage would be greater than the probable loss.

Mr. McLEAN (*Charlotte*): This could have been done before?

Mr. BARRY: Oh, yes.

Mr. McLEAN (*Charlotte*): But, under mistaken conditions, you thought that it was insured.

Mr. WILLIAMS: If I could make that clear, sir. It is only in the province of Quebec that we are not insured against theft, under normal policies of insurance, because of differences in provincial legislation.

We have no insurance for fire on any of our products anywhere in Canada. This is all an extra cost item under all types of warehousing, as I undersand it, particularly cold storage warehousing.

Mr. McLEAN (*Charlotte*): Did you know the difference between the legislation in Quebec and the other provinces?

Mr. WILLIAMS: I did not, sir.

Mr. SOUTHAM: I am referring to a lower town fire, now, Mr. Williams. Is the government taking steps to provide protection for the board in this respect?

Mr. WILLIAMS: No, sir.

Mr. SOUTHAM: You are still carrying the risk?

Mr. WILLIAMS: That is right, sir.

Mr. FLEMMING: I only want to ask a question of Mr. Williams or Mr. Barry. Have they ever considered dealing with butter on the same basis as a deficiency payment rather than to put it into storage, and let the producers of the local people handle all of this and make a deficiency payment the same as they do on eggs and pork, I believe. I wonder if that has ever been considered by the Department?

Mr. WILLIAMS: It has been considered on numerous occasions, Mr. Flemming. The difficulty here lies in the very highly seasonal nature of our butter production. We produce better than 70 per cent of our butter during about five months of the year. Were the Board not to physically intervene in the market by taking this off and storing it, it is considered that the price would drop to a very low level, particularly in years when we were in a very, very heavy

surplus position. At the present time that argument is not as strong as it was previously, but I think it still holds. For example, during this month, we will consume about 30 million pounds of butter and will produce somewhere in the neighbourhood of 55 million pounds. Unless someone takes that off the market and agrees to store it, we will be back to where the price would drop very significantly and possibly speculators would be able to cash in on it during the winter months. Because somebody would have to store it and take it off the market. It would not enter into consumption because of the very unequal production pattern.

● (12.30 p.m.)

The CHAIRMAN: I wonder if I could ask a question here following Mr. MacLean's question. You have a Department of Justice in the Department of Agriculture?

Mr. WILLIAMS: We have a solicitor seconded to us from the Department of Justice.

The CHAIRMAN: You entered into an agreement to store butter in the province of Quebec?

Mr. WILLIAMS: That is correct.

The CHAIRMAN: You did this without consulting your legal department?

Mr. WILLIAMS: I am afraid I could not answer that question.

The CHAIRMAN: Could somebody in the department answer that for us? Your administrator?

Mr. BARRY: No, I doubt if Mr. Parker could, sir. I think the fact simply is that we stored butter in Quebec as we do in every province, under warehouse receipts.

The CHAIRMAN: Is it not a fact that if you had consulted with your justice department, they would have informed you that the regulations in Quebec were different from those of other provinces of Canada?

Mr. BARRY: Yes.

The CHAIRMAN: Therefore, you failed to contact your justice department before you stored the butter in Quebec. Then you have no contract signed. That is right?

Mr. WILLIAMS: That is correct. We have a non-negotiable warehouse receipt from every warehouse.

The CHAIRMAN: You mean that you store butter in a warehouse without any contract with that warehouse owner?

Mr. WILLIAMS: That is correct.

Mr. BIGG: The contract is supplied by the one who trades, I suppose, and he is responsible.

The CHAIRMAN: Do you not have inspectors who go around to these warehouses periodically?

Mr. WILLIAMS: Yes, on the average, each of these warehouses is inspected for temperature, quality of the product we have stored and other factors about once a month.

The CHAIRMAN: When did your inspectors visit these places? Can you give us a record of the dates of their visits and the dates on which the goods were stolen?

Mr. WILLIAMS: I cannot give it to you here. I can report on it, however.

The CHAIRMAN: I think we would like to have that. If you have inspectors going to these warehouses—although the thefts could have occurred between their visits—I think it would be wise to know of their visits and the dates.

Mr. FLEMMING: Were those responsible for these thefts ever brought before the courts?

Mr. WILLIAMS: I cannot answer for all the cases offhand, but certainly in one of the cases the people were apprehended and are serving a sentence at the present time. Investigations in respect of at least one of these are still continuing. We have the police reports in each case.

The CHAIRMAN: Would your inspectors or anybody in the department look at these warehouses before you put the butter in to examine them for cleanliness, temperature, whether they have a burglar control system, or anything like that?

Mr. WILLIAMS: They are all inspected prior to any butter being stored in them, and must meet a series of conditions before they can be officially designated as what we call an approved warehouse. We will only accept butter for purchase when it is stored in an approved warehouse.

The CHAIRMAN: Well this involved a loss of \$33,000 to the taxpayers of Canada and the Committee is concerned about it. Are there any further questions?

Mr. SOUTHAM: Mr. Chairman, you mention a loss of \$33,000 but I was more interested in these two fire losses, which amounted to \$100,000 in one year. This could recur in the future. Does the department anticipate taking any steps to protect themselves against fire loss because a loss amounting to one hundred thousand dollars in one year is quite possible.

Mr. WILLIAMS: Based on the assessment by the Board on this matter, its decision was that the added cost of storage occasioned by paying a storage rate to cover fire losses would not be commensurate with the possible losses. This was a judgment decision on the part of the board.

Mr. SOUTHAM: Have they considered the possibility of entering into some agreement with the warehouse people themselves to provide proper compensation to them, and of they, themselves, providing fire protection?

Mr. WILLIAMS: This is what was being considered. They charge a differential rate if they provide the insurance coverage.

Mr. McLEAN (*Charlotte*): Mr. Chairman, I would like to ask if there is any regular check made on these warehouses? In New Jersey they had a \$150 million loss in oil; when they looked for the oil it was gone. In this case, the burglars apparently took only a certain amount, but there might have been an inventory loss.

Mr. WILLIAMS: The inspectors make periodic but not regular visits. I do not mean to imply they call monthly on a fixed date. One of their functions is to check the quantities of butter in storage at that time.

Mr. McLEAN (*Charlotte*): You have records on these checks in the department?

Mr. WILLIAMS: Yes. The inspectors of the dairy products division report to their division of visits to warehouses.

Mr. McLEAN (*Charlotte*): If we asked for the checks on these individual warehouses where the losses occurred, could we get them?

Mr. WILLIAMS: I am not sure what you mean by "checks", sir. We will have a record of the matter.

Mr. McLEAN (*Charlotte*): You would have a record, would you not, if the inspector goes in, makes a check and says there is so much butter in storage in that warehouse at a certain time?

Mr. WILLIAMS: We would not have that type of report.

Mr. BARRY: I think there is one point I might interject here, Mr. Chairman. As I understand it, when a warehouse issues a warehouse receipt for a given quantity of goods, it is legally liable to deliver those goods back to the customer, unless something such as theft or fire occurs.

Mr. McLEAN (*Charlotte*): It happened in New Jersey where the American Express Company lost \$80 million.

The CHAIRMAN: The Department of Defence Production had a little experience on drums of uranium. On delivery they were found to be filled with sand and the goods were not there. So there are always angles to be watched.

Mr. LEBLANC: When the inspectors visit these warehouses, do they actually make physical counts of the butter stored there?

Mr. WILLIAMS: No, sir.

Mr. LEBLANC: They never do? You just assume that your quantity of butter is still the same all through?

Mr. WILLIAMS: We hold the plant responsible and we have always been able to collect in any case where there has been a shortage. There sometimes are shortages and we have always been able to have the plant make that good at that time. Butter turns over fairly quickly now, sir.

Mr. LEBLANC: How did you find those shortages then?

Mr. WILLIAMS: These particular shortages? They were reported through the police immediately.

Mr. LEBLANC: That was on account of theft, but I am referring to other shortages not attributable to theft. Would you have a shortage of butter at any time without theft?

Mr. WILLIAMS: Sometimes, yes. We do our bookkeeping on what we call a carload butt basis. We only purchase and sell butter by carloads. At the present time, of course, it is turning over in less than a year approximately, on the average. When the butter is ordered out of storage, it is ordered out by a carload lot and that carload is weighed. It is identified and every box is branded against this carload. If the count or the weight for that carload is incorrect then the warehouseman has to make up the deficiency.

Mr. BALDWIN: Mr. Chairman, I think we all applaud the alertness of the Auditor General in discovering this. The note is made and I think we must appreciate the fact that the board has now taken steps to prevent a recurrence. I think we should not let this pass without commenting on the fact that, on the plus side, this very large quantity of butter has been stored over a very long period of time with this very small loss in this case. I think this is a matter we should comment upon.

But there is a further aspect on which I would like to ask a question. Are the warehouse people who store this butter under any form of bond or is there any sort of provincial guarantee? I am thinking that your warehouse receipts are, of course, only as good as the financial stability of the people who issue them. Do you find it essential or have you ever thought it necessary to make checks, from time to time, on the responsibility of these people? A loss being sustained, under a bankruptcy procedure might be quite a lot more substantial than that of a fire or theft. Or have you certain priorities under your warehouse receipts to cover bankruptcy involving a warehouse where your butter was stored?

Mr. WILLIAMS: Well, I think that in so far as the bankruptcy angle is concerned, it is not their butter at all, it is our butter. I do not believe it would be considered as their assets were they to go into bankruptcy. We have had at least one case, that I can recall, where a firm went bankrupt and it did not affect our holdings in any way whatsoever. We took the butter out of storage, I believe, and moved it to another storage because we knew they no longer continued as a cold storage, but I am not absolutely certain of the fact.

Mr. BALDWIN: Well that is subject to the fact that the butter is there pursuant to the warehouse receipt. If the butter was not there, then, of course, it would actually be a loss. Maybe this is, as Mr. Speaker would say, a very hypothetical case. I just pose it as a possibility that you might, because of the incidence of bankruptcies, find it essential from time to time to check regarding the financial responsibility of the people with whom the butter is stored.

The CHAIRMAN: Mr. Henderson, I think, has an observation to make.

Mr. HENDERSON: Mr. Chairman, we are drawing most of our information here, as you know, from the 1965 report, but if you were to turn to the 1964 one you would have observed that this Board had a fire loss in that year of over \$5 million arising from another fire at a warehouse, which is charged to trading operations in that year.

It was because of the size of this particular loss in 1964 that we ourselves raised with the department the question of fire insurance and, realizing that it is the policy of the federal government to be a self-insurer, we suggested in the report that it might be useful additional information if a statement of losses by accidental destruction—the sort of thing on which normally, in business, you would carry insurance—could not be put in the Public Accounts. Then we could have some experience, over a period of time, and find out whether or not it would pay us to go and buy some insurance.

At the time my 1964 report was being written, members will recall that this Committee was in session and we discussed in the subcommittee on the Public Accounts, which led to this Committee making the suggestion that they adopt this.

I would direct your attention to the 1964-65 Public Accounts on page 45.3 if anybody cares to note it. There is a schedule put in for the first time: "Losses Due to Accidental Destruction Of Or Damage To Assets Which Would Normally Be Covered By Insurance Had Such Coverage Existed"...It is a bit of a mouthful but it will give us a good idea over a period of time. You will find in the first listing, ten departments by name and the cost value of their losses, that is, the cost to them in terms of buildings, contents, equipment, vehicles, miscellaneous, which for this first year is \$1,384,508. Of course, if it had been the year previous, we would have had this \$5 million in there for the butter.

You will see right in this 1965 statement under Department of Agriculture that the total of their losses was \$133,941 of which \$87,207 are the figures you were looking at on page 174 of my 1965 report; the \$23,000 worth of butter and the \$64,000 worth of pork. So that got in here quite properly.

I suggest that after we have built up a little experience on this, the executive will be in a position to determine whether or not it is worthwhile to continue as a self-insurer. That was the purpose of it and I think this Committee was very wise in making that recommendation, Mr. Chairman.

The CHAIRMAN: Thank you, Mr. Henderson. Mr. Bigg. We have two more items.

Mr. BIGG: Our experience with self-insurance in the Mounted Police was that they saved \$60,000 a year by not insuring stables. I think that, over a period of time, in my opinion, it would pay the government to keep on being self-insured because, surely insurance companies work on a profit basis.

The CHAIRMAN: Paragraph 215, page 176. But before we go on to that I think Mr. Barry or Mr. Williams has a sample of the contract under which you store. Maybe we could file a copy and give the Committee members one as well. Paragraph 215.

215. *Board of Grain Commissioners for Canada.* This Board operates under the authority of the Canada Grain Act, R.S., c. 25, and is composed of a chief commissioner and two other commissioners appointed by the Governor in Council. The Board has jurisdiction to inquire into any matter relating to grading, weighing and storage of grain, unfair or discriminatory operation of any elevator, and any other matter arising out of the performance of the duties of the Board.

The following is a comparative summary of the results of operations for the past two years:

	Year ended March 31	
	1965	1964
<hr/>		
Expenditure—		
Salaries, allowances, etc.	\$ 4,465,000	\$ 4,496,000
Contributions to Public Service Superannuation		
Account	260,000	249,000
Rent	189,000	192,000
Travel	148,000	158,000

Printing and stationery	65,000	54,000
Other	314,000	269,000
	<hr/>	<hr/>
	5,441,000	5,418,000
	<hr/>	<hr/>

Revenue—

Inspection	2,360,000	2,034,000
Weighing	1,159,000	1,005,000
Registrations and cancellations	67,000	58,000
Licences	28,000	28,000
Sundry	4,000	4,000
	<hr/>	<hr/>
	3,618,000	3,129,000
	<hr/>	<hr/>

Excess of expenditure over revenue	\$ 1,823,000	\$ 2,289,000
	<hr/>	<hr/>

The practice of sampling wheat in railway cars at Calgary, Edmonton and Winnipeg was discontinued during the year and sampling is now done at the Lakehead or tidewater. A slight reduction in staff has resulted.

The fees chargeable for inspection and weighing services are, for the most part, based on volume of grain. The increased earnings from these services are attributed to the increase in the movement of grain due to the sale of wheat to Russia.

In previous Reports we have pointed out that the fees charged for the various services provided by the Board had not been revised since 1949, although the costs of performing these services had been steadily increasing. With effect from August 1, 1965, the fees to be charged for inspection and weighing services have been increased by 50 per cent (see Appendix 1, item 12).

Estimated costs, aggregating \$294,000, for contributions to the Public Service Superannuation Account and other employee benefits, which have been provided without charge by government departments, are included as expenditure of the Board.

Mr. HENDERSON: On the Board of Grain Commissioners for Canada you will remember that item 12 of the 1966 follow-up report contained the recommendation, and this is mentioned at the top of page 177, namely that steps should be taken by the board to bring revenues more into line with expenditures. This led the board to increase its fees for inspection and weighing services which it did, effective August 1, 1965, and consequently it is expected that a substantial improvement will begin to make itself apparent when the figures for 1965-66 are available.

Like the Agricultural Products Board and the Agricultural Stabilization Board, the Board of Grain Commissioners include the cost of services provided without charge by government departments in their expenditures, in accordance with the recommendations of this Committee in 1961.

I do not know whether members have any questions they wish to address to the Deputy Minister on this point, Mr. Chairman.

The CHAIRMAN: Any questions on 215? I think there is one question that might be asked here. Why did the Board of Grain Commissioners wait so long before increasing their prices? Why did they allow themselves to operate in the red so long before they corrected the situation? Maybe Mr. Hamilton, the chief commissioner would like to answer that briefly.

Mr. F. HAMILTON (*Chief Commissioner, Board of Grain Commissioners*): Mr. Chairman, the present Board inherited this situation and when we decided to make a change, we had to be careful and realize that there was a crop year which ends the end of July which the contractor made to cover the whole year, and the margin in some of these contracts is very, very slim. This gave us some problems. This really explains the delay, Mr. Chairman, in implementing the increases.

The CHAIRMAN: When you say "inherited", what year did you mean?

Mr. HAMILTON: This would be in 1963.

The CHAIRMAN: In 1963 you took over?

Mr. HAMILTON: Yes, sir.

The CHAIRMAN: And that is three years ago.

Mr. HAMILTON: That is right.

The CHAIRMAN: And you did not change the rate until when, last year was it? August, last year?

Mr. HAMILTON: August, last year, 1965.

The CHAIRMAN: Mr. Leblanc.

Mr. LEBLANC (*Laurier*): You will find that too on the other paragraph. The last paragraph of 215 is also on 216. Mr. Henderson has mentioned that estimated costs for contributions to the Public Service Superannuation Account, which had been provided without charge by government departments, are included as expenditures. Would you explain that further, Mr. Henderson?

Mr. HENDERSON: Regarding the reference here to the Board of Grain Commissioners, the same thing is true of the Canadian government elevators, which are under departmental operating activities. We have been to some pains, over the past several years, to explain to the Committee, and the Committee has supported our recommendation, that if the operations of these agencies of government which are in the category of carrying out servicing or trading operations, were to be brought together in a financial statement form, showing the revenues and expenditures, that the members of the House and the public would get a better picture of whether or not they are paying.

In order to do that, it is necessary to bring in those benefits which they receive which, in the past, have been paid by other departments. Your most notable exception is the Department of Public Works which pays rent for all the departments. The Treasury Board met this point by inserting in the blue book of Estimates—and you now see them—the approximate cost of major services provided free by other government departments and you see it at the heading of your estimates.

I think I can safely say that today the majority of the departments operating like this are picking up these estimated costs of the services which

they obtain free and they are including those costs in their statement of expenses when they prepare them. So that you are seeing, for the first time over the past few years, a much more accurate total cost for the different operations.

That is very true in the case of these agencies of the Department of Agriculture and we are very pleased, and I am sure the Committee is, that their financial statements are now all-embracing like this, because you are seeing the total picture.

You may remember we discussed this in the case of the Post Office because the franking expense would, of course, have been a credit to them. I think if they were to take that into their accounts it would have been over \$4 million, to which they are quite properly entitled to take the credit. So the reference is being made here and it has become an accepted practice.

I should like to place on the record how very pleased we are, Mr. Chairman, with the co-operation shown by the Department of Agriculture, Mr. Barry and his associates, in doing this right across the board in respect of all their agencies. I think this should commend itself to the committee.

The CHAIRMAN: Paragraph 216, and then we will adjourn, gentlemen.

216. Canadian Government Elevators. The Canadian Government Elevators comprise six elevators, located at Moose Jaw, Saskatoon, Calgary, Edmonton, Lethbridge and Prince Rupert, and are managed and operated by the Board of Grain Commissioners for Canada under authority of section 166 of the Canada Grain Act, R.S., c. 25, and Order in Council P.C. 1372 of August 19, 1925.

The proprietary equity of the Government of Canada in the Elevators at March 31, 1965 was \$11,115,000, represented by fixed assets costing \$10,543,000, advances for recoverable freight charges, \$93,000, and working capital, \$479,000.

The following is a summary of the results of operations for the year with comparable amounts for the preceding year:

	Year ended March 31	
	1965	1964
<hr/>		
Operating revenue—		
Storage	\$ 480,000	\$ 558,000
Elevation	446,000	343,000
Cleaning	143,000	91,000
Screenings	102,000	75,000
Drying	75,000	17,000
Other	51,000	20,000
	<hr/>	<hr/>
	1,297,000	1,104,000
<hr/>		
Expense—		
Salaries and wages	911,000	886,000
Grants in lieu of taxes	151,000	195,000

Power	96,000	84,000
Maintenance—buildings, plant and equipment ...	72,000	149,000
Head office expenses	71,000	59,000
Contributions to Public Service Superannuation Account	51,000	58,000
Employees' surgical-medical insurance and compensation	7,000	7,000
Other	49,000	35,000
	<hr/> 1,408,000	<hr/> 1,473,000
Operating loss, without provision for depreciation ...\$	111,000	\$ 369,000

Normal practice in the grain trade is to allow free storage for the first five days on all grains received. The rapid turnover of wheat resulting from the large volume of sales abroad was the main factor in the decline in revenue from storage. During 1964-65 the Elevators handled 2,420,000 bushels of rapeseed compared with 472,000 in the previous year. The rate for elevation of rapeseed is 5½ cents per bushel whereas the rate charged for wheat is only 1½ cents per bushel. The increased number of bushels of rapeseed handled during 1964-65 accounts for the increased revenue from elevation. The condition of the grains received, especially rapeseed, was such that exhaustive cleaning was required resulting in an increase in the revenue from cleaning and screenings.

During 1963-64 grants in lieu of taxes were increased and the adjustment was made retroactive to January 1, 1961. The restoration of concrete bins was completed in 1963-64, at a cost of \$86,000, and no extensive repairs were undertaken during 1964-65.

The loss of \$65,000 by the Lethbridge elevator was its twentieth consecutive annual loss. The accumulated deficits during this period have amounted to \$885,000.

Estimated costs, aggregating \$58,000, for contributions to the Public Service Superannuation Account and other employee benefits, which have been provided without charge by government departments, are included as items of expense of the Elevators.

Mr. HENDERSON: This paragraph summarizes the results of operations of the Canadian government elevators located at Moose Jaw, Saskatoon, Calgary, Edmonton, Lethbridge and Prince Rupert. As you know, these are managed and operated by the Board of Grain Commissioners. There are some comments made in this note at the top of page 178, and again, I am taking the 1965 one.

In the first paragraph we seek to provide an explanation for the decline in revenues from storage while, in the next paragraph, the reason is given for the apparent drop in grains in lieu of taxes.

You will also note that this was the twentieth consecutive year in which there has been a loss made by one of the elevators, namely Lethbridge. This has always been the case and we make a comment about it, Mr. Chairman. I do not know whether Mr. Hamilton and his associates welcome our singling out the Lethbridge elevator. For my part, I am always curious to know why they do not sell it, but I suppose they have sound reasons for that.

Mr. HAMILTON: Mr. Chairman, these elevators were never constructed on the recommendation of our Board. They are held mainly for emergency use, particularly by the Canadian Wheat Board. We are powerless to increase business through them of our own accord. We must rely on the Canadian Wheat Board to make use of them.

Much as we appreciate that Lethbridge is not a very bright picture, financially, we are taking steps to overcome this. We have 19 less on staff on our whole government elevator system this year than in the past year and, in our five-year forecast, we intend to reduce staff by a further 28 people.

It is our hope and intention that we can maintain the Lethbridge elevator with just a caretaking staff and, if it is required by the Canadian Wheat Board, then we will staff it from the rest of our system.

Mr. SOUTHAM: Mr. Chairman, in referring to Lethbridge specifically indicating a loss of \$885,000 over twenty years, which does amount to quite a figure, could Mr. Hamilton say how the other elevators, say at Moose Jaw, Saskatoon, Calgary, and Edmonton and Prince Rupert are they self-liquidating as far as overhead is concerned or do they incur a loss too and, if so, how much?

Mr. HAMILTON: Mr. Chairman, I would like Mr. MacLeod, the Secretary of our Board, to answer this question.

Mr. W. J. MACLEOD (*Secretary, Board of Grain Commissioners*): Mr. Chairman, the Canadian Government Elevator system of Moose Jaw in the fiscal year 1965-66, the expenditure was \$188,000 and the revenue was \$12,965.

The CHAIRMAN: You have not got the net figure there for each one. You have got expenditures and revenues. you have not got them subtracted?

Mr. MACLEOD: I can give it to you roughly.

The CHAIRMAN: Just roughly, I think that would do.

Mr. MACLEOD: The expenditure over revenue was approximately \$176,000. In Saskatoon, expenditure \$243,000 and the revenue \$163,000, which leaves about \$70,000 deficit. Calgary, the revenue was \$300,000, expenditure \$206,000, \$94,000 surplus. Edmonton expenditure \$242,000, revenue \$327,000, about \$86,000 surplus. Lethbridge, last year \$130,000 expenditure, revenue \$110,000, \$20,000 deficit. Prince Rupert elevator, expenditure was \$537,000, the revenue \$717,000, surplus, \$181,000.

Mr. HENDERSON: Mr. Chairman, may I ask—those were not 1965 figures?

Mr. MACLEOD: 1965-66 prepared as expenditure and revenue.

Mr. HENDERSON: We would not have 1965-66 figures yet.

The CHAIRMAN: Was Moose Jaw a plus or minus situation?

Mr. MACLEOD: Moose Jaw was a minus.

Mr. SOUTHAM: Mr. Chairman, could the witness state why we find, say Moose Jaw and Lethbridge in a minus position while the other figure would indicate surplus positions? Are these other figures an annual fact? Do they show a profit annually or is it that this one specific year happens to give us these relative set of figures?

Mr. HAMILTON: This is a fair average picture of the way they work. The elevators in Calgary and Edmonton are more attractive; they are closer to the

west coast. The elevator at Saskatoon can be used to back up the movements through Churchill. It is very attractive to the Canadian Wheat Board. Moose Jaw, unfortunately, is sitting just about on a break-even point between the lakehead and the west coast. Down in that part of the country, the southern part of the prairies, we are not plagued with tough and damp grain as much as they are in the northern areas, so there is not the same call for service at the Moose Jaw and Lethbridge elevators.

Mr. SOUTHAM: Mr. Chairman, coming from a western riding and from a rural area where the agricultural industry is predominant and, anticipating trying to help and assist in any way we can to move this grain into market positions, I ask whether, in this over-all program, the Lethbridge elevator with this large loss of \$885,000 over twenty years, is indicated in the overall picture? Are you proposing its use as emergency accommodation or that this program should be carried on by and large, in the assistance of agriculture?

Mr. HAMILTON: Mr. Chairman, we feel that we will be able to overcome this deficit at Lethbridge. We have a proposal now in front of the Canadian Wheat Board which, if accepted, will allow us to go up and organize our own business.

Mr. BIGG: Is it not true that just as in the storage facilities it is a peculiar reflection of the health in the grain trade?

Mr. HAMILTON: This is quite true, Mr. Chairman.

The CHAIRMAN: I would think, Mr. Hamilton, in the operation of your Canadian government elevators, that if you do not make a real profit now and put it away and build up a surplus, you will never do it, because you are going through some exceedingly good times, as far as the grain trade is concerned, which I would think, would be a wonderful time to build up some surpluses. If you do not do it now, you never will. This is your program, I suppose?

● (1.00 p.m.)

Mr. HAMILTON: Mr. Chairman, I am afraid that it works the other way round. When sales are poor, storage conditions on the prairies are congested and then they make use of us. When the grain is really rolling, there is no call for storage in the interior terminals.

Mr. BIGG: I think that the Board are to be congratulated on the fact that they are losing on their storage, because they are moving the grain.

The CHAIRMAN: Have you any recommendations on what to do with the Lethbridge elevator?

Mr. BIGG: Well, I imagine they have thought of this. It might well be that if there is space in Lethbridge we might do something about the quotas. Leave the grain stored in Lethbridge perhaps in the elevators and, if you can, put the box cars where the elevators are full. This might show up badly in your accounting but it would certainly help the farmers.

The CHAIRMAN: We have not heard from Mr. Long this morning so we will call on him now to close the meeting.

Mr. BALLARD: Just as a matter of interest, could Mr. Hamilton tell us how much grain they have in storage at the present time?

The CHAIRMAN: In all—

Mr. BALLARD: Yes, in all elevators.

The CHAIRMAN: In all government elevators, or in those he has just listed?

Mr. BALLARD: In all the government elevators that are listed.

The CHAIRMAN: Well, while Mr. MacLeod is looking that up we will carry on with Mr. Long and come back to that.

Mr. LONG: Mr. Chairman, I have always been rather intrigued by the situation at Lethbridge. I am speaking from memory but I have been interested in the government elevators for some years. I believe there is a problem of a back haul here that would add cost to grain if it came back into the Lethbridge elevator for storage. You will recall two or three years ago the Porth Arthur elevator which, if I remember correctly, was an elevator that did make money, was sold.

This facility in Lethbridge is never likely to be used for anything but storing grain, and I have often wondered if consideration has ever been given to seeing whether private enterprise could operate it at a profit. The facility would still be there so there should not be any disadvantage, to the population in that area if it was operated privately, rather than by the government. It represents a continual drain on public funds and has been almost even since it was built.

The CHAIRMAN: Your problem would be to get an entrepreneur who would take hold of a white elephant like that, unless you practically gave it to him, I suppose.

Mr. LONG: Well, it might be good business to give it to him.

The CHAIRMAN: I think so. Now, an answer to Mr. Ballard's question, Mr. MacLeod?

Mr. MACLEOD: Mr. Chairman, I only have the statistics on the whole elevator system. We do not have them for individual elevators, but on June 8th, there were 1,081,000 bushels of wheat in store in all elevators and 1,892,000 bushels of barley. At Prince Rupert there were 640,000 bushels of wheat in storage.

The CHAIRMAN: Well, gentlemen, we will adjourn, but, before adjourning, I would remind you of Thursday's meeting at 11.00 a.m. in this room when we will have Dr. Davidson of Treasury Board before us. Thank you.

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OF
PROCEEDINGS AND EVIDENCE

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LÉON-J. RAYMOND,
The Clerk of the House.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

PROCEEDINGS

No. 18

THURSDAY, JUNE 23, 1966

Public Accounts, Volumes I, II and III (1965)

Reports of the Auditor General to the House of Commons (1964 and 1965)

INCLUDING THIRD REPORT TO THE HOUSE

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1966

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Baldwin,	Mr. Gendron,	Mr. Schreyer,
Mr. Ballard,	Mr. Gilbert,	Mr. Stafford,
Mr. Bigg,	Mr. Leblanc (<i>Laurier</i>),	Mr. Southam,
Mr. Cameron	Mr. McLean (<i>Charlotte</i>),	Mr. Tardif,
(<i>High Park</i>),	Mr. Morison,	Mr. Thomas (<i>Maison-</i>
Mr. Dionne,	Mr. Muir (<i>Lisgar</i>),	<i>neuve-Rosemont</i>),
Mr. Flemming,	Mr. Noble,	Mr. Tremblay,
Mr. Forbes,	Mr. Racine,	Mr. Tucker—(24).

(Quorum 10)

J. H. Bennett,
Clerk of the Committee.

REPORT TO THE HOUSE

TUESDAY, June 28, 1966.

The Standing Committee on Public Accounts has the honour to present the following as its

THIRD REPORT

1. On February 7, 1966 the members of your Committee were appointed.

2. On March 28, 1966 the House passed the following resolution:

Ordered,—That the Public Accounts, Volumes I, II, and III, for the fiscal years ended March 31, 1964 and March 31, 1965 and the Reports of the Auditor General thereon, tabled on February 16, 1965 and February 1, 1966, respectively, together with the reports and financial statements of the Canada Council for the fiscal years ended March 31, 1964 and March 31, 1965, and the reports of the Auditor General thereon tabled on July 14, 1964 and March 7, 1966, respectively, be referred to the Standing Committee on Public Accounts.

3. Your Committee held its organization meeting on March 1, 1966 and unanimously elected as Chairman, Mr. A. D. Hales, a member of Her Majesty's Loyal Opposition. Mr. T. H. Lefebvre was elected Vice-Chairman. At the next meeting on April 5, 1966 the Chairman announced the composition of the Sub-Committee on Agenda and Procedure as follows: Messrs. Hales, Lefebvre, G. W. Baldwin, Paul Tardif and H. E. Winch.

4. Your Committee held eight meetings during the period from April 5, 1966 to May 19, 1966 in the course of which the following officers were in attendance:

from The St. Lawrence Seaway Authority:

Dr. Pierre Camu, President
Mr. P. E. R. Malcolm, Vice-President
Dr. D. E. Taylor, Member
Mr. J. M. Martin, Director of Finance and Accounting
Mr. J. T. Carvell, Counsel
Mr. L. E. Beland

from the Canada Council:

Mr. Jean Martineau, Chairman
Mr. Jean Boucher, Director
Mr. Peter Dwyer, Associate Director
Miss L. Breen, Secretary-Treasurer
Mr. Jules Pelletier, Chief of Awards Section
Mr. André Fortier, Financial Manager

- Mr. N. Leblanc, Member
- Dr. C. J. MacKenzie, Member
- Mr. D. W. Bartlett, Secretary, Canadian National Commission for UNESCO
- Mr. D. H. Fullerton, Investment Consultant
- and from the Auditor General's Office:
 - Mr. A. M. Henderson, Auditor General
 - Mr. George Long, Assistant Auditor General
 - Mr. A. B. Stokes, Audit Director
 - Mr. D. A. Smith, Audit Director
 - Mr. J. R. Douglas, Audit Director
 - Mr. H. G. Crowley, Audit Director
 - Mr. C. F. Gilhooly, Audit Director
 - Mr. Edward Cooke, Audit Director
 - Mr. J. M. Laroche
 - Mr. H. B. Rider
 - Mr. L. G. Sayers
 - Mr. W. A. Villeneuve
 - Mr. I. A. M. Buzza
 - Mr. D. H. McMillan

5. The following is an interim report on the work done by your Committee up to and including the meeting held on May 19, 1966.

6. In the course of its meetings your Committee gave consideration to:
- (a) the action that had been taken by departments and other agencies as a result of recommendations made by the Committee in its
 - Fourth Report 1963
 - Fourth Report 1964
 - Fifth Report 1964
 - Sixth Report 1964
 - Seventh Report 1964
 - Eighth Report 1964

(b) the following paragraphs in the Reports of the Auditor General:

	For the fiscal year ended	
	March 31, 1964	March 31, 1965
Introduction	1 to 11	
Summary of Expenditure and Revenue	12 to 43	
Comments on Expenditure and Revenue		
Transactions	44 to 93	
Excess cost of Seaway property		125
Crown Corporations—		
The St. Lawrence Seaway Authority	159	209
Special Audits and Examinations—		
The Canada Council	174	225

*Action taken by departments and other agencies as a result
of recommendations made by the Committee*

7. A memorandum dated February 28, 1966 was filed by the Auditor General (Minutes of Proceedings, pp. 33-59) reporting on the action that had been taken by departments and other agencies in this regard.

8. The Committee noted that up to February 28, 1966 action had been taken by departments and other agencies concerned with respect to only 10 of the 40 recommendations made by the Committee in the undernoted reports to the House:

<i>Title of Report</i>	<i>Dated presented to House</i>
Fourth Report 1963	December 19, 1963
Fourth Report 1964	July 28, 1964
Fifth Report 1964	August 5, 1964
Sixth Report 1964	October 20, 1964
Seventh Report 1964	December 7, 1964
Eighth Report 1964	December 7, 1964

9. The Committee believes that if parliamentary control of public funds is to be effective, prompt and effective action must be taken by Ministers, deputy ministers and the other responsible government officials toward implementing its recommendations.

The Committee is particularly concerned and shocked to find that some of the practices it has criticized in previous years, and which were the subject of specific recommendations at that time, not only continue unchanged but have been extended and enlarged. In its opinion, such disregard of its recommendations minimizes the work of the Committee and is contrary to the interests of the taxpayers of Canada.

10. The Committee continues to attach special importance to having an effective follow-up of its recommendations and again requests that:

- (1) in order that no matter is overlooked the Chairman of the Public Accounts Committee provide each Minister and the Auditor General with a copy of this and subsequent reports of this Committee to the House of Commons;
- (2) the Minister of each department concerned advise the Chairman of Public Accounts and the Auditor General within three months as to what action has been taken or is to be taken on matters on which the Committee has made recommendations in this and subsequent reports;
- (3) in order that the members of the Committee may be made aware of the extent to which the Government is adopting the recommendations of the Committee in relation to legislation which is proposed for Parliament, it is recommended that the Auditor General advise the Chairman, Vice-Chairman or whomsoever either may designate, from time to time, as to the status of each recommendation contained in this and subsequent reports of the Committee.

11. The Committee is examining the current status of each item in the memorandum dated February 28, 1966 filed by the Auditor General, otherwise known as the "1966 Follow-Up Report". Reference to each item will be found in the recommendations included in this or subsequent reports of the Committee.

The St. LAWRENCE SEAWAY AUTHORITY

Financial statement for the fiscal years ended December 31, 1963 and December 31, 1964

12. The Committee examined the annual financial statements of The St. Lawrence Seaway Authority for the years ended December 31, 1963 and December 31, 1964 which are referred to by the Auditor General in paragraph 159 of his 1964 Report and paragraph 209 of his 1965 Report. This examination was facilitated by reference to the annual reports of the Authority for each of the two fiscal years and by the supplementary reports on the accounts addressed to the members of the Authority by the Auditor General under date of July 6, 1964 and September 29, 1965.

This was the first occasion on which the Committee has had members or officers of the Authority before it as witnesses and the members of the Committee are now much more familiar with the operations of The St Lawrence Seaway Authority and appreciate very much the considerable amount of information which was given to them by the witnesses.

The Committee was pleased to learn that the Authority enjoys good relations with departments of government and is satisfied with the organization of its finances notwithstanding the fact that revenues have been less than anticipated, thus preventing the Authority from meeting all its obligations in its first six years of operation.

The Committee learned from the Authority that it was optimistic that, provided anticipated increases in traffic and tolls materialize, it would be able to meet its financial obligations without subsidy or other relief.

The Committee was concerned to learn of the transaction which is referred to in paragraph 125 of the Auditor General's 1965 Report which involved a piece of property expropriated in 1955 with the expropriation being abandoned early in 1956. Subsequently, a 96,000-barrel fuel oil storage tank was constructed on the land and there was a trespass on Crown property when an oil pipeline was laid across it to a dock without obtaining an easement. No action was taken concerning the trespass and the property, which apparently is essential to the eventual construction of all-Canadian Seaway, was purchased in April 1964 for \$282,000, which included \$132,000 for the oil storage tank.

The Committee has asked a sub-committee to inquire into this transaction and will report further when the report of the sub-committee is received.

The Committee was also concerned to learn that there had been an overpayment of \$130,000 in grants in lieu of taxes to the City of Cornwall over a period of five years, but it was advised that recovery would be made in five equal instalments from future grants in lieu of taxes. The Committee felt that the error of including one piece of land twice in the calculation of grants in lieu of taxes should have been detected and corrected much earlier and was pleased to have the assurance of the Authority that a survey had been made and that no other similar cases existed.

THE CANADA COUNCIL

*Reports and financial statements for the fiscal years
ended March 31, 1964 and March 31, 1965*

13. In its Fourth Report in December 1963, the Committee noted that the Council proposed to accept the 1956 census as a basis for distribution of the profits realized and interest earned on the University Capital Grants Fund and also to accept the 'hotch-pot' or trust fund approach to this distribution.

The Committee had been informed, at its meeting on July 28, 1964, that in the interim the Council had proceeded to allocate and distribute funds resulting from profits realized and interest earned on the foregoing bases. The Committee regarded the approach as a reasonable one but, because of the conflicting views held as to whether the action taken is ultra vires of subsection (2) (b) of section 17 of the Canada Council Act, recommended that steps be taken to seek amending legislation to provide clear authority for the Council to use the 1956 census and the 'hotch-pot' approach in the distribution of interest and profits in respect of the University Capital Grants Fund. Under the 'hotch-pot' approach interest is charged against those who have drawn money and taken into the Fund as revenue to be distributed, so that all participants are brought to a common time, which is the time when the Fund is finally all distributed.

The Committee was concerned to learn that notwithstanding its recommendation, no action had been taken by the Canada Council toward seeking amending legislation, and furthermore that the Canada Council did not consider amending legislation necessary and apparently proposed to do nothing about it. The Committee recalled that legal opinions were sought from the Deputy Attorney General and from three independent lawyers and that the Deputy Attorney General and two of the independent lawyers supported the view of the Auditor General that the procedure followed by the Council was not in accordance with the Canada Council Act. Nevertheless, the Council had followed the opposite opinion which had been given by one of the independent lawyers.

Consequently, the Committee reiterates its previous recommendation and requests the Canada Council to formally request the Government to give consideration to the required amending legislation with the objective of having this proposed legislation considered by Parliament prior to the final closing out of the Capital Grants Fund.

OFFICE OF THE AUDITOR GENERAL

14. The Committee made three recommendations in its 1963 and 1964 Reports to the House designed to assure the independence of the Office of the Auditor General and by so doing improve parliamentary control of public funds. The Committee regrets that no action has been taken with respect to any of these recommendations.

15. The members of your Committee have again reviewed the circumstances which gave rise to these particular recommendations over two years ago and wish not only to reiterate the importance they attach to them but to make two additional recommendations:

- (1) It continues to be the opinion of the Committee that it is fundamental that the Office of the Auditor General of Canada be strong, capable, efficient and equipped to operate in accordance with the high standards of independence and objectivity expected of professional accountants. The Committee has been particularly pleased to note in this connection that the Office was recently accorded the right by the Institutes of Chartered Accountants of Quebec (1964) and Ontario (1966) to article students-in-accounts.

The Committee believes that as an officer of Parliament, the Auditor General should have the right to recruit the professional and senior staff he needs, in the same independent manner as do other officers of Parliament and that the Auditor General's establishment be set in the same manner as government departments.

- (2) The Committee noted that although this officer of Parliament is the auditor of the majority of the Crown corporations, it has not been the practice of successive governments to appoint the Auditor General the auditor of seven of the Crown corporations and other public instrumentalities and that therefore their accounts have not been examined and reported upon by him to the House. The Committee expressed its belief that it would be in the best interests of Parliament in its control of public funds were the Auditor General empowered to audit the accounts of all of the Crown corporations, agencies and public instrumentalities owned or controlled by the Crown, wherever they may be, and to report thereon to the House.

The Committee again recommends:

- (a) that the Auditor General be appointed either the sole auditor or a joint auditor pursuant to subsection (2) of section 77 of the Financial Administration Act, of each Crown corporation, agency and other public instrumentality in respect of which other auditors have been or may be appointed;
 - (b) that in cases where other auditors are appointed, they function as joint auditors with the Auditor General, and that such appointments be made by the government.
- (3) The Committee noted that pursuant to the provisions of section 75 of the Financial Administration Act, an officer of the public service nominated by the Treasury Board examines and certifies to the House of Commons in accordance with the outcome of his examinations the receipts and disbursements of the Office of the Auditor General.

For the purpose of preserving the independence of the Office of the Auditor General, the Committee again recommends that this section of the Financial Administration Act be amended to provide that the receipts and disbursements of the Office of the Auditor General be examined by a qualified person nominated by Parliament through its Standing Committee on Public Accounts, and that such person should report thereon to the House of Commons.

- (4) The Committee has noted that whereas the salaries paid to the senior deputy ministers and others were substantially increased with effect from December 1, 1965, no proposal has been made to the House by the government to adjust the salary of the Auditor General whose salary is fixed pursuant to section 65(2) of the Financial Administration Act.

In order to render the Auditor General independent of the Executive in this regard, the Committee recommends that section 65(2) of the Financial Administration Act be amended to provide that the Auditor General shall out of the Consolidated Revenue Fund be paid a salary not less than the highest amount being paid to a senior deputy minister in the public service of Canada.

- (5) The Committee is of the opinion that all of the characteristics, duties and functions of the Office of the Auditor General, including the foregoing recommendations, should be set out in a separate Act of Parliament governing this Office instead of being a part of the Financial Administration Act.

The Committee is requesting the Auditor General to consult his legal advisers and to co-operate with them in drafting such an Act for submission to the Committee and to the Government.

STANDING COMMITTEE ON PUBLIC ACCOUNTS

16. The Committee has studied an arrangement in Australia whereby the Public Accounts Committee is appointed under an Act of Parliament instead of under terms of reference by the House of Commons as is the case in Canada.

17. The Committee believes that control of public expenditure of the size and complexity taking place in Canada today requires a Committee established by statute and recommends that legislation of this type be introduced into the House.

REPORTS OF THE AUDITOR GENERAL

18. *Advance planning of construction projects*

The Committee has taken note of how part of the costs of a new building were charged to one department with the remainder charged to another.

In the opinion of the Committee it is highly desirable that all of the cost of each building project should be charged to the right place and not divided between the accounts of two departments. Such accuracy is imperative if final cost records are to reflect true costs.

19. *Unpaid accounts carried forward to new fiscal year*

The Committee noted instances where appropriations were insufficient to meet accounts coming in course of payment during the year. Although recognizing difficulties in making forward estimates and other factors, the Committee cannot countenance overspending of appropriations.

The Committee believes it would be informative to Members of Parliament and to the public if the Public Accounts of Canada were to include a statement

by department and appropriation of all amounts remaining unpaid at the year-end for any reason whatsoever. It recommends that such a statement be included in the Public Accounts of Canada commencing with the year 1965-66.

* * * * *

The Committee will be reporting further to the House with respect to the matters referred and discussed at its meetings since May 19, 1966.

A copy of the relevant Minutes of Proceedings and Evidence (Nos. 1 to 8 inclusive) is appended.

Respectfully submitted,

ALFRED D. HALES,
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, June 23, 1966.

(25)

The Standing Committee on Public Accounts met this day, *in camera*, at 11.10 a.m. The Chairman, Mr. A. D. Hales, presided.

Members present: Messrs. Baldwin, Dionne, Flemming, Gendron, Gilbert, Hales, Leblanc (*Laurier*), Lefebvre, McLean (*Charlotte*), Noble, Tardif, Tucker (12).

The Committee considered a draft interim report on the results of its examinations up to May 19, 1966.

Following discussion, the draft report was adopted as amended and the Committee ordered the Chairman to present it to the House as its Third Report.

At 1.00 p.m., the Committee adjourned to the call of the Chair.

J. H. Bennett,
Acting Clerk of the Committee.

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LÉON-J. RAYMOND,
The Clerk of the House.

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